ANNUAL MARKET REVIEW 2016-17

Phone-paid services market outlook 2017-18

Researched and written by mobile squared

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Executive Summary

All revenues excluding VAT unless stated otherwise

Mobilesquared has been commissioned by the Phone-paid Services Authority to conduct the Financial Year 2016-2017 (FY2016-17) annual market review. The scope of this project is to examine and explore the phone-paid services market, provide in-depth analysis of its component parts, and outline the market prospects for the sector for the next financial year.

The UK phone-paid services market in FY2016-17 was worth £708.6 million (£593.7 million excluding charity donations), representing a 4.5% year-on-year increase. This increase represents an artificial high for the phone-paid service industry, caused by reaction to regulatory changes and the enforcement of PayForIt (PFI) mandates by the mobile network operators affecting non-broadcaster competitions and quizzes and resulted in an additional £30 million of revenues for the sector.

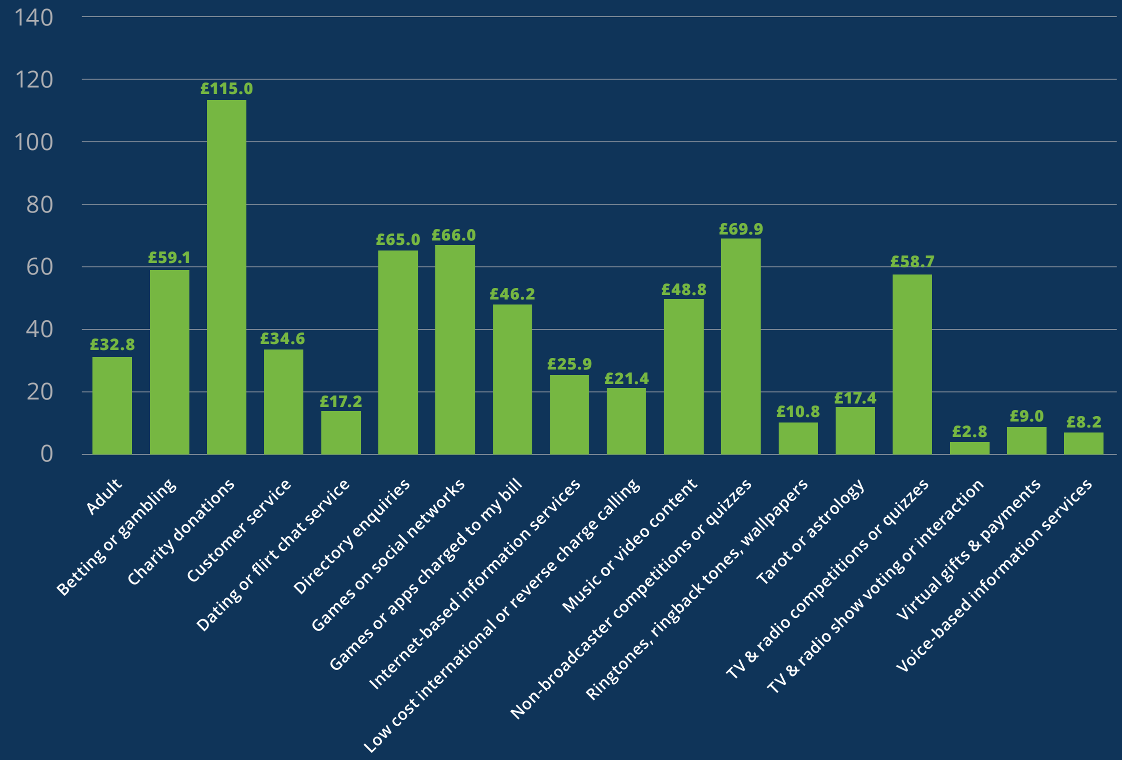
Mobile accounted for 75% of total revenues in FY2016-17, driven by operator billing in particular. When broken out by payment types, mobile (which includes PSMS and voice shortcodes) generated revenues of £249.8 million, accounting for 35% of total market revenues. This was followed by operator billing and PayforIt (£168.4 million / 24%), charity donations (£115 million / 16%), and then the voice services, directory enquiries (£65 million / 9%), voice PS/09 & TV red button (£60.2 million / 8%), and voice 087 (£50.3 million / 7%).

Year-on-year, operator billing and PFI continue to drive the market forward, with revenues increasing 31.4%, supplemented by mobile (including PSMS and voice shortcodes) which experienced revenue growth of 11.3%. But all other payment types, including charity donations, experienced a year-on-year decrease. Directory enquiries experienced the greatest decline of 21.4%, with 087 customer service, low cost international or reverse charge calling, and voice-based information services all experiencing a decline in revenues of 10-12%.

The average revenue generated by a phone-paid service type was £39.4 million in FY2016-17, which means eight of the 18 service types generated above average revenues.

Phone-paid services market revenues by service type, FY2016-17 £m (excl. VAT)

Fig. i



Source: Phone-paid services market sizing for Phone-paid Services Authority

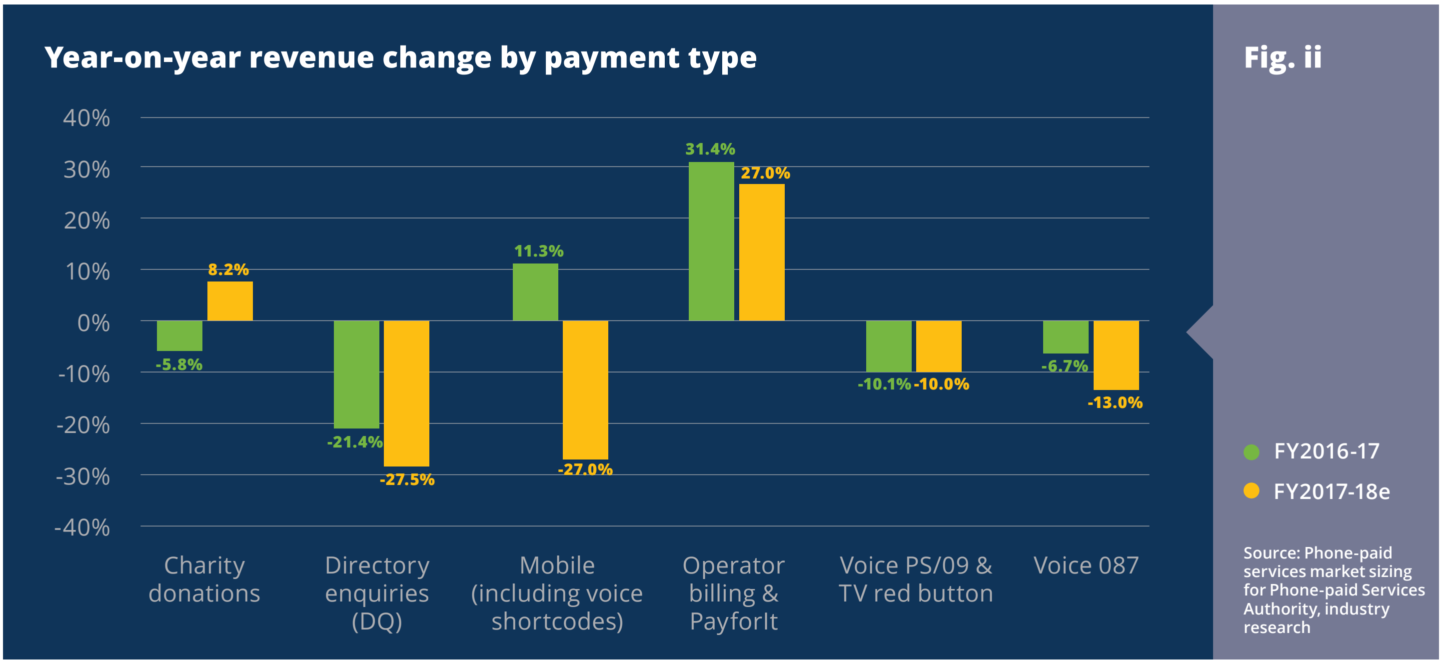
Total phone-paid services market revenues and donations are projected to fall 6.1% between FY2016-17 and FY2017-18, as the ramifications of the inflated non-broadcaster competition and quizzes revenues continue to impact on the overall phone-paid service landscape. Had this sector remained stable in FY2016-17, the total market decline would have been closer to 2%. As it stands, the market is estimated to generate revenues of £665.5 million, or £541.1 million excluding charity, in FY2017-18.

Operator billing and PayforIt is expected to overtake mobile (PSMS and voice shortcodes) and provide the greatest contribution in terms of revenues (32% of total market revenue), generating an estimated £213.8 million. This compares to a projected £182.3 million for mobile (including PSMS and voice shortcodes), which will account for 27% of total spend. Charity donations is estimated to account for 19% of spend (from projected donations of £124.4 million), leaving voice PS/09 & TV red button (£54.2 million), directory enquiries (£47.1 million), and voice 087 (£43.7 million) contributing a combined 22% of total spend.

In terms of revenue change, operator billing & PayforIt is expected to experience the largest year-on-year increase of 27%, ahead of charity donations (8%). Mobile (PSMS and voice shortcodes) is expected to drop 27% year-on-year, prompted by the lack of new subscribers attracted to non-broadcaster competitions and quizzes and adult video services. Voice revenues are forecast to maintain their downward trajectory, with directory enquiries most affected (28%), with voice PS/09 & TV red button and voice 087, projected to drop 10% and 13%, respectively.

In total, 10 of the 18 categories will likely experience a year-on-year fall in revenues, with TV or radio show voting or interaction (30.5%), adult (28.8%), and directory enquiries (27.5%) expected to experience significant drops. Overall, the average revenues per service type are expected to drop 9% year-on-year, from £39.4 million in FY2016-17 to £37 million in FY2017-18.

Charity donations is expected to return to growth following its decline in FY2016-17, as drop off in one-off donations are increasingly converted into monthly subscriptions. But the projected growth in operator billing and PayforIt of 27%, compared to 31% and 55% in the previous financial years, suggests that growth may be slowing down. This has been attributed to the early adopters of users reaching a ceiling, prior to the launch of the next–generation of quasi-physical and physical goods, such as mTicketing, which is expected to take operator billing to the mass market.



There were 22.7 million consumers of phone-paid services in FY2016-17, representing a drop of 1% on the previous year, based on extensive consumer research[1]. On average, each phone-paid service had 3.6 million users, which was a drop of 5.4% on FY2015-16, suggesting consumers are consolidating the number of phone-paid services they use.

Of the total 18 service types, five had an above average user base, led by customer service which continues to have the largest user base (12.8 million), and remains considerably ahead of TV & radio competitions or quizzes (7.6 million), and charity (5.4 million). The three smallest services were dating or flirt chat services (1 million), adult (0.6 million) and virtual gifts and payments (0.5 million).

The average revenue per user for phone-paid services in FY2016-17e was £15.69, up 37% on the previous year, suggesting fewer people are spending more via phone-paid services year-on-year.

[1] See Methodology

Convenience and occasional usage are the core reasons consumers continue to use phone-paid services. Fifty eight percent of users either increased or maintained their usage in FY2016-17, and 59% said they received exactly what they were expecting. A similar number of users (55%) said they were either satisfied (40%) or very satisfied (15%). This is also translated into an improved showing in the Net Promoter Score for the phone-paid service industry, scoring -31 (negative 31), up on last year's score of -36 (negative 36).

But industry must continue to be concerned about the 25% of users that decreased their usage during FY2016-17, and the 41% of users that did not receive what they were expecting which either was not a problem (24%) or was a problem (17%).

More noteworthy is the 17% of phone-paid service users that stopped using the services altogether, almost 4 million users. The consumer research points to a growing level of mistrust among phone-paid service users, with 32% of phone-paid service users (7.3 million) claiming their trust had been compromised during the previous 12 months up from 29% in FY2015-16.

Problems associated with a phone-paid service accounted for 2.3 million consumers stopping using the service, which is 58% of total users that have stopped using phone-paid services in the financial year. The average monthly drop-off of consumers for problem-related issues was 190,000 compared to 139,000 for non problem-related issues.

1

SECTION 1: THE MARKET

Total revenues FY2016-17

All revenues excluding VAT unless stated otherwise

The UK phone-paid services market in Financial Year 2016-2017 (FY2016-17) can be best described as an anomaly.

The market was worth £708.6 million in FY2016-17 (£593.7 million excluding charity donations), representing a 4.5% year-on-year increase, and reverses five sequential years of revenue decline – although FY2015-16 experienced a minor decline and indicated a period of stability for the phone-paid service industry.

But this increase represents an artificial high for the phone-paid service industry, caused by reaction to regulatory changes and the enforcement of PayForIt (PFI) mandates by the mobile network operators affecting non-broadcaster competitions and quizzes and – to a lesser extent – adult services.

The associated escalation of advertising activity in the online competitions sector in the first half of FY2016-17 resulted in an additional £30 million of revenues for the sector, and is one of the factors contributing to the increase in phone-paid services revenues. Otherwise, the market was likely to experience a 2% decline in revenues.

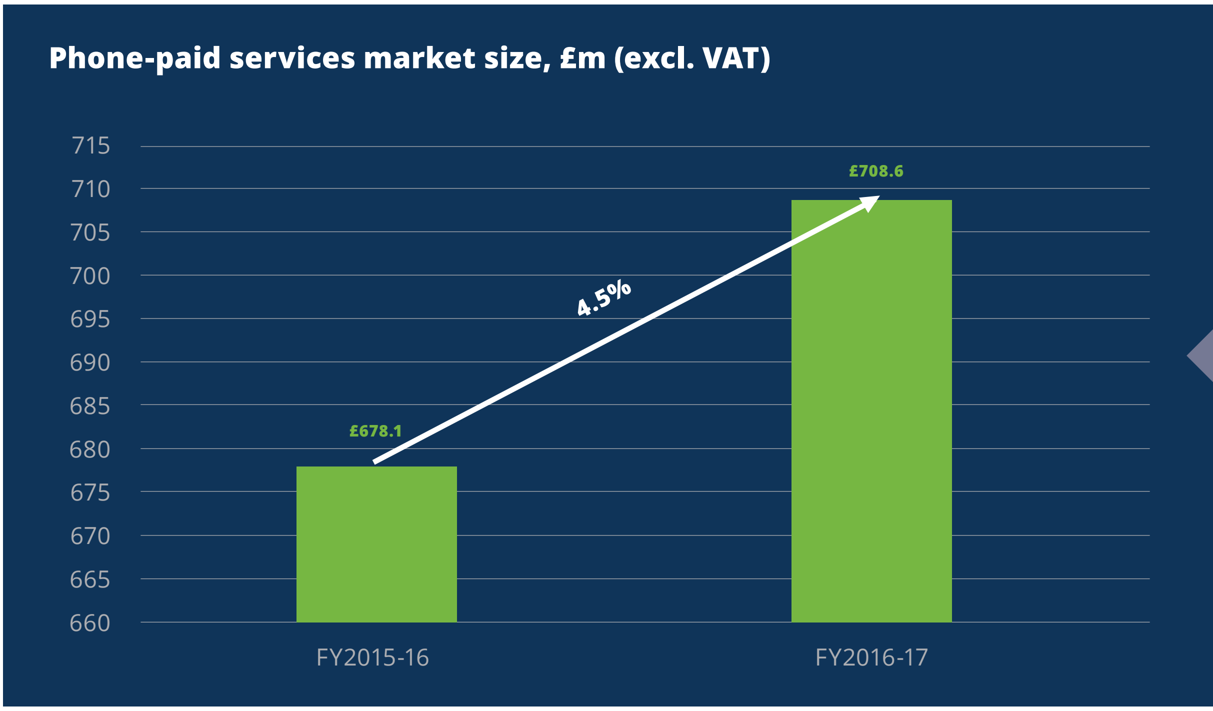


Fig. 1

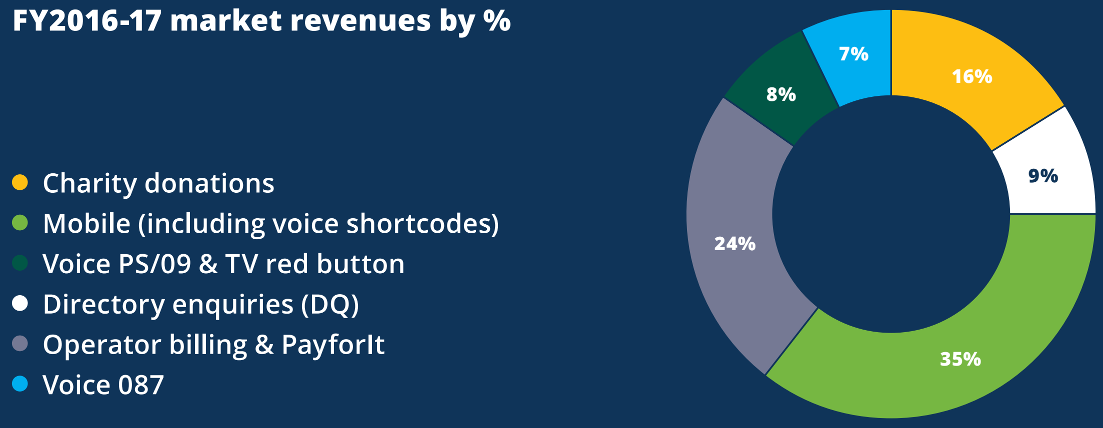
Source: Phone-paid services market sizing for Phone-paid Services Authority

Market size by payment

Mobile (which includes PSMS and voice shortcodes) generated revenues of £249.8 million in FY2016-17, accounting for 35% of total market revenues. This was followed by operator billing and PayforIt (£168.4 million / 24%), charity donations (£115 million / 16%), and then the voice services, directory enquiries (£60.2 million / 9%), voice PS/09 & TV red button (£65 million / 8%), and voice 087 (£50.1 million / 7%).

FY2016-17 market revenues by %

Fig. 2

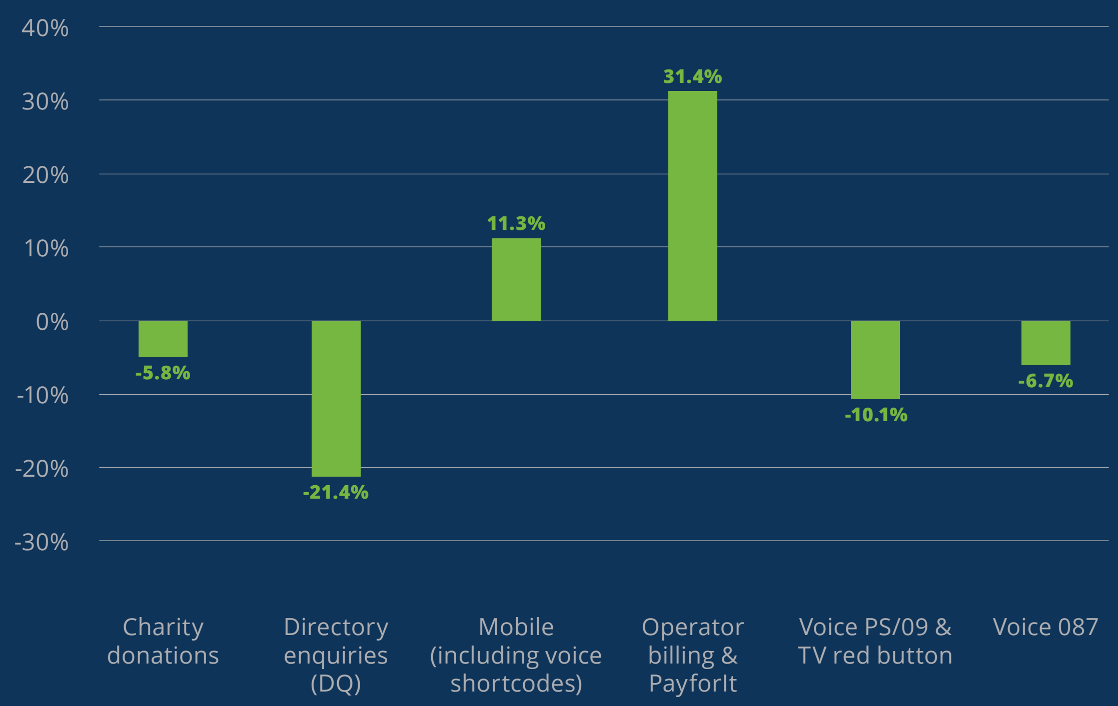


Phone-paid services market sizing for Phone-paid Services Authority

Year-on-year, operator billing and PFI continue to drive the market forward, with revenues increasing 31.4%, supplemented by mobile (including voice shortcodes) revenues which experienced growth of 11.3%. But all other payment types, including charity donations, experienced a year-on-year decrease. Directory enquiries experienced the greatest decline of 21.4%.

FY2015-16 / FY2016-17 phone-paid services revenue % change by payment type

Fig. 3



Source: Phone-paid services market sizing for Phone-paid Services Authority

Overall, mobile-based revenues (which include operator billing and PFI, PSMS, voice shortcodes, and charity donations) now account for 75% of total revenues.

Phone-paid services market revenues by service type FY2016-17

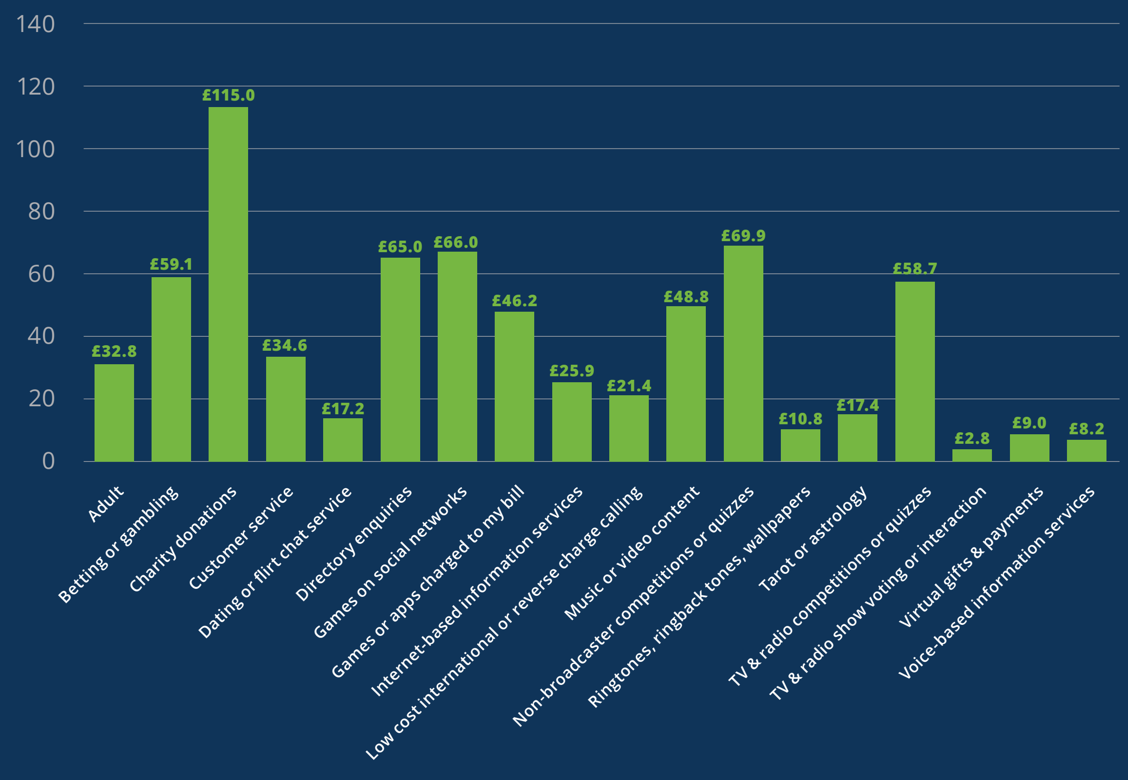
Charity donations maintains its position as the largest phone-paid service worth £115 million in FY2016-17. The second largest service based on revenues is non-broadcaster competitions and quizzes, on £69.9 million – for reasons already outlined and explored further in Section 4. This was followed by games on social networks (£66 million), and directory enquiries (£65 million), which remains the largest voice service in terms of revenues.

The three smallest phone-paid services were TV and radio show voting or interaction (£2.8 million), voice-based information services (£8.2 million), and virtual gifts and payments[2] (£9 million).

The average revenue generated by a phone-paid service type was £39.4 million in FY2016-17, which means eight of the 18 service types generated above average revenues.

Phone-paid services market revenues by service type, FY2016-17, £m (excl. VAT)

Fig. 4



Source: Phone-paid services market sizing for Phone-paid Services Authority

Half of the services experienced a year-on-year increase in revenues between FY2015-16 and FY2016-17. Non-broadcaster competitions and quizzes experienced the greatest increase of 132%, followed by TV & radio competitions and quizzes (34%) and virtual gifts and payments (23%), primarily down to the adjustment in the service's definition to include payments, such as vouchers and online gaming credit top-ups.

[2] See Methodology

Voice-based services continue to struggle, representing five of the nine services to have experienced a year-on-year decline. Directory enquiries continues to experience the largest year-on-year decline of all voice services (21.4%), with 087 customer service, low cost international or reverse charge calling, and voice-based information services all experiencing a decline in revenues of 10-12%.

Notably, the services now associated as driving the adoption of operator billing (including, games on social networks, games or apps charged to my bill, internet-based information services, and music or video content) only experienced an average growth of 6% compared to 27% growth for the same period in the previous financial year. This is the first indication that the migration from traditional phone-paid service payment mechanisms, such as PSMS, to operator billing – perceived as the natural successor – is slowing.

The greatest decline was TV or radio show voting or interaction (44%) as the impact of free app-based voting in particular continues to erode phone-paid service revenues. Adult services revenues dropped 19%, partially attributed to the regulatory special conditions and PFI mandate enforcement by the mobile network operators, but primarily caused by the natural decline in adult video service users paying via the PFI payment mechanism.

Wider regulation introduced by the Fundraising Regulator had a negative impact on charity donations, which experienced a 6% decline year-on-year. The enforced migration from the soft opt-in model to a hard opt-in reduced the number of one-off donations. This was largely offset by an increase in broadcaster donations via telethons as a result of the successful introduction of the £20 donation point.

% revenue change, FY2015-16 - FY2016-17

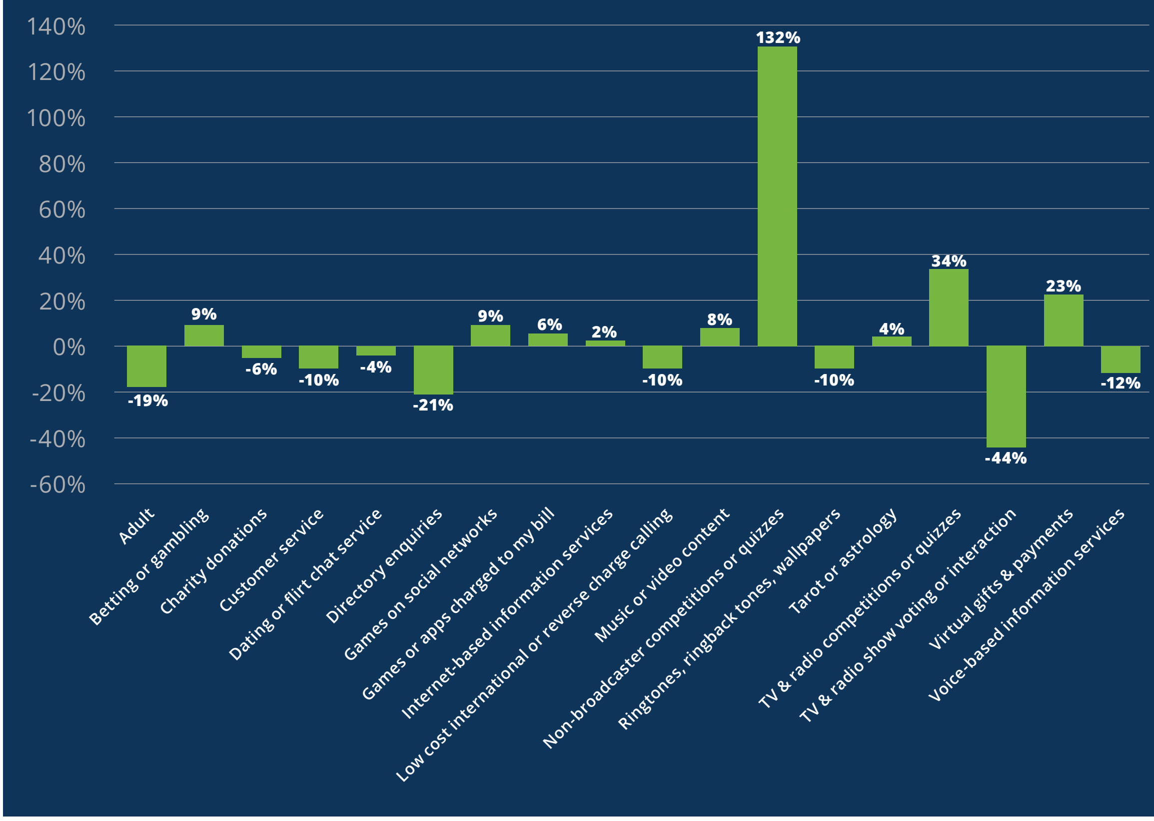


Fig. 5

Source: Phone-paid services market sizing for Phone-paid Services Authority

Financial year 2017-2018 estimates

Total phone-paid services market revenues + donations are projected to fall 6.1% between FY2016-17 and FY2017-18, as the ramifications of the inflated non-broadcaster competition and quizzes revenues continue to impact on the overall phone-paid service landscape. Had this sector remained stable in FY2016-17, the total market decline would have been closer to 2%. As it stands, the market is estimated to generate revenues of £665.5 million, or £541.1 million excluding charity, in FY2017-18.

Phone-paid services market size, £m (excl. VAT)

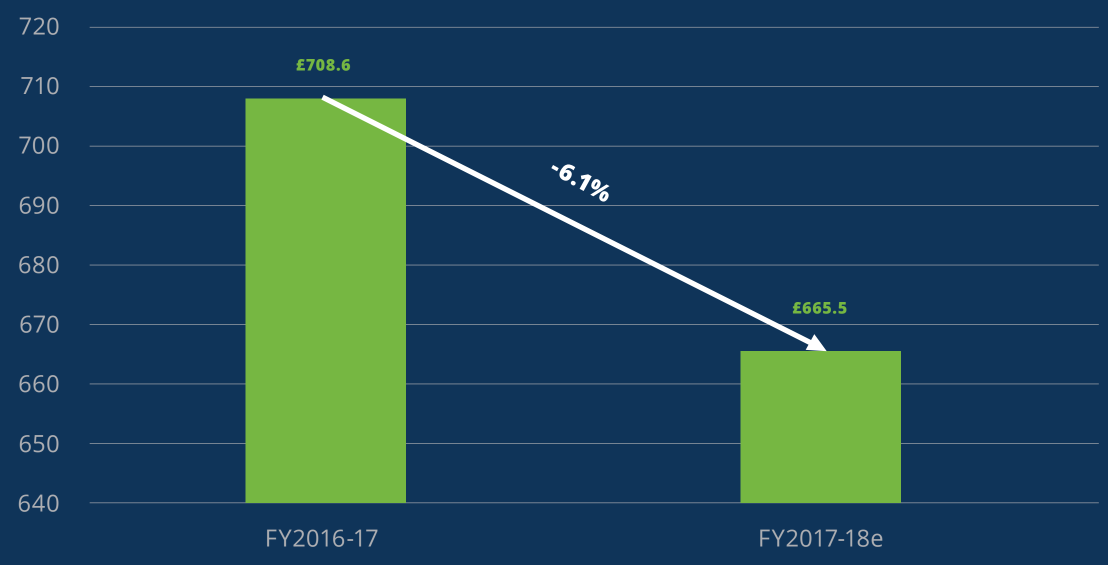


Fig. 6

Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

FY2017-18e by payment type

Operator billing and PayforIt will overtake mobile (PSMS and voice shortcodes) and provide the greatest contribution in terms of revenues (32% of total market revenue), generating an expected £213.8 million. This compares to a projected £182.3 million for mobile (including voice shortcodes), which will account for 27% of total spend. Charity donations is estimated to account for 19% of spend (from projected donations of £124.4 million), leaving voice PS/09 & TV red button (£54.2 million), directory enquiries (£47.1 million), and voice 087 (£43.7 million) contributing a combined 22% of total spend.

FY2017-18e market revenues by %

- Charity donations
- Mobile (including voice shortcodes)
- Voice PS/09 & TV red button
- Directory enquiries (DQ)
- Operator billing & PayforIt
- Voice 087

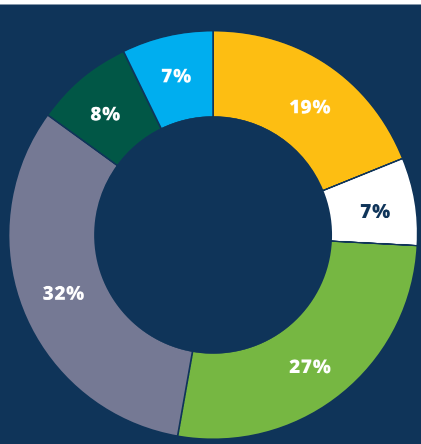


Fig. 7

Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Only two payment types are projected to enjoy a year-on-year increase in revenues in FY2017-18. Operator billing & PayforIt will continue to command the phone-paid service landscape with the largest year-on-year increase of 27%, ahead of charity donations (8%). Mobile (including voice shortcodes) will drop 27% year-on-year, prompted by the lack of new subscribers attracted to non-broadcaster competitions and quizzes and adult video services.

Voice revenues are forecast to maintain their downward trajectory, with directory enquiries most affected (28%), with voice PS/09 & TV red button and voice 087, projected to drop 10% and 13%, respectively.

FY2016-17 - FY2017-18e revenue % change by payment type

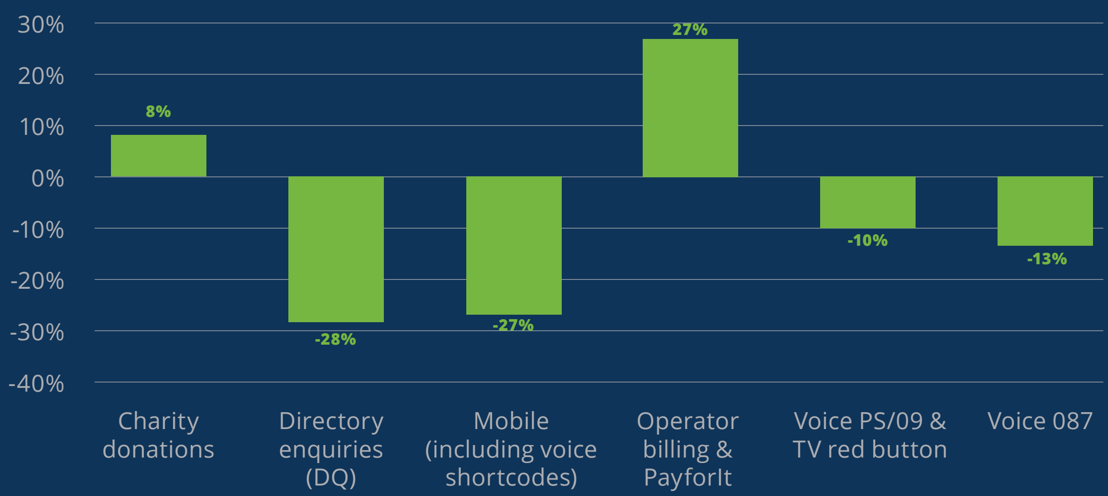


Fig. 8

Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

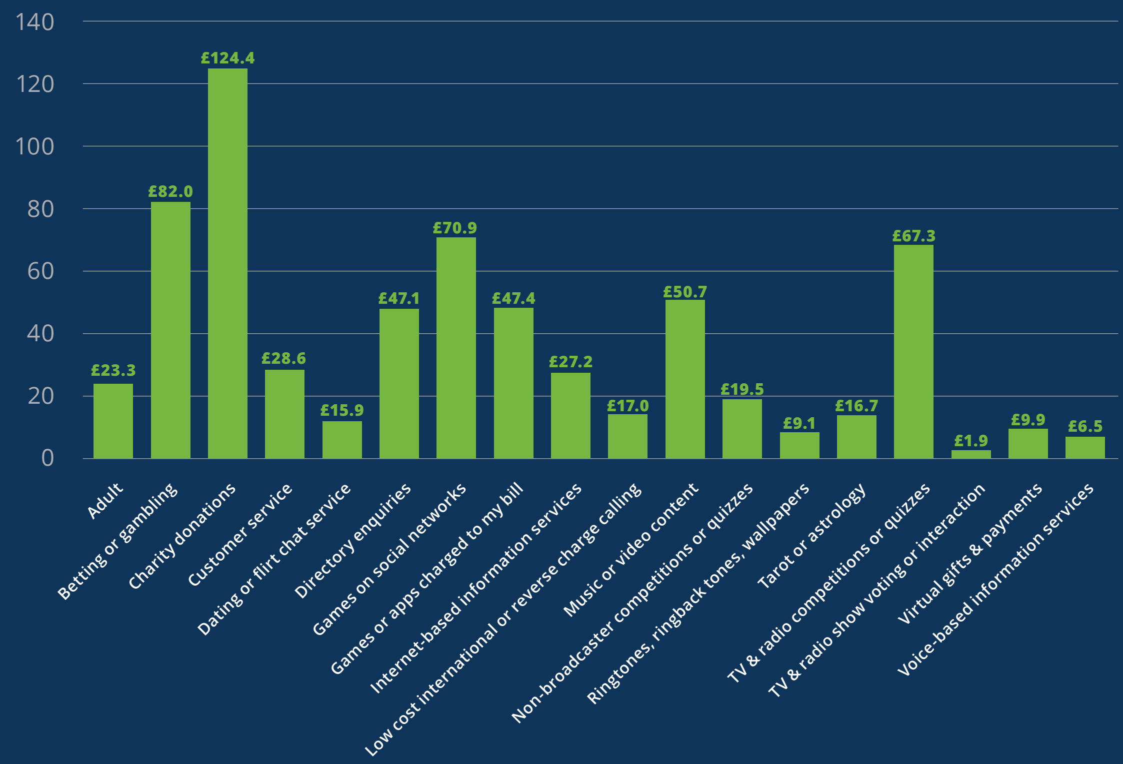
FY2017-18e market revenues by payment type

Charity donations is forecast to remain the leader in terms of consumer spend via a a phone-paid service payment mechanism, generating an expected £124.4 million in donations during FY2017-18.

Betting or gambling (or lotteries) is projected to generate revenues of £82 million, boosted by the planned inclusion of society lotteries, which are set to launch in the second half of FY2017-18. Games on social networks continues to perform well, with revenues expected to hit £70.9 million, ahead of TV & radio competitions or quizzes on £67.3 million which is expected to continue to enjoy significant growth on the back of successful radio broadcaster competition activity.

Phone-paid services market revenues by service type, FY2017-18e £m (excl. VAT)

Fig. 9



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

FY2017-18e market revenue change by service type

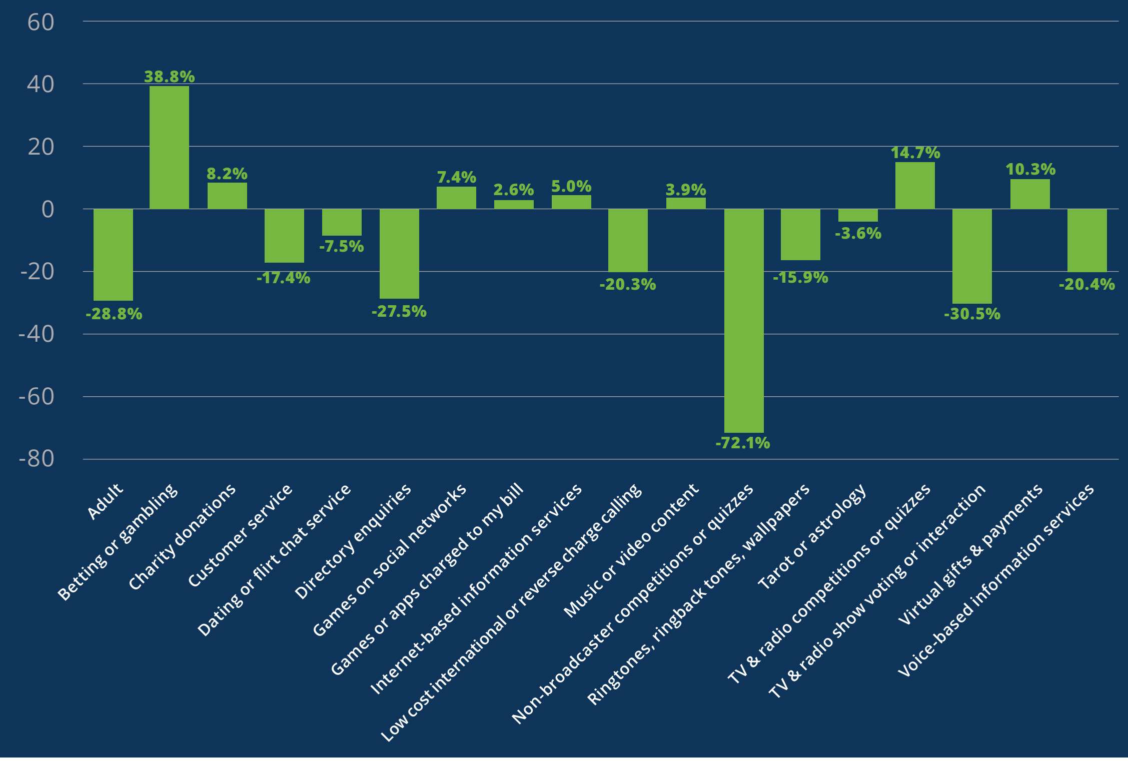
As dramatic as the increase in non-broadcaster competitions or quizzes revenues in FY2016-17 was, its expected decline will be equally, if not more, dramatic. Between FY2016-17 and FY2017-18e, revenues are projected to fall 72.1% to £19.5 million. Online competitions are expected to account for two-thirds of revenues – coming from residual payments, and offline competitions accounting for the remainder.

In total, 10 of the 18 categories will likely experience a year-on-year fall in revenues, with TV or radio show voting or interaction (30.5%), adult (28.8%), and directory enquiries (27.5%) expected to experience significant drops.

Overall, the average revenues per service type are expected to drop 9% year-on-year, from £39.4 million in FY2016-17 to £37 million in FY2017-18.

% revenue change, FY2016-17 - FY2017-18e

Fig. 10



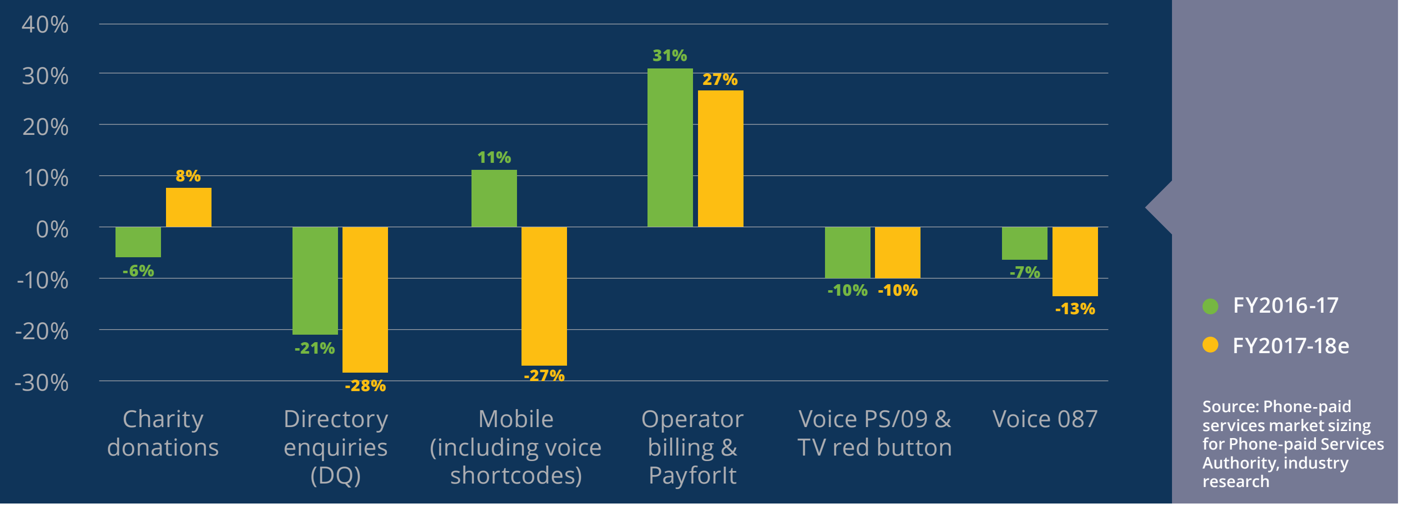
Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

The all but cessation of new subscribers using online competitions and adult video services will see mobile (including voice shortcodes) experience a year-on-year decline of 27%, following an 11% growth the previous financial year. The decline in directory enquiry revenues is projected to accelerate to 28% in FY2017-18, while voice 087's continued drop in revenues will fall from 7% to 13%. Voice PS/09 & TV red button will experience a consistent year-on-year fall of 10%.

Charity donations is expected to return to growth following its decline the previous year, as drop off in one-off donations are increasingly converted into monthly subscriptions. But the projected growth in operator billing and PayforIt of 27%, compared to 31% the previous financial year, indicates that growth is slowing down.

Year-on-year revenue change by payment type

Fig. 11



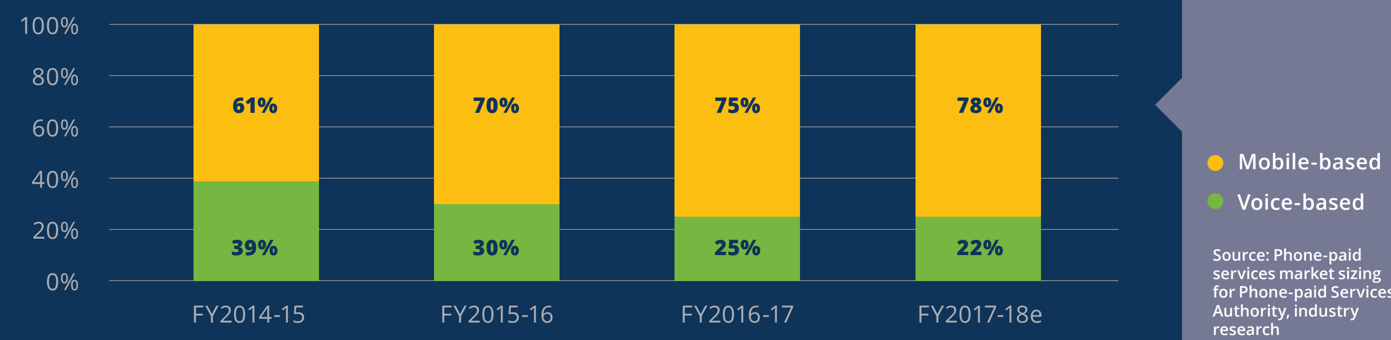
Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Operator billing in particular has been viewed by industry as the next payment mechanism to spearhead the renaissance of the phone-paid services market. But growth in FY2016-17 was lower than expected. In FY2015-16, it grew by 55%, in FY2016-17 growth was down to 31%, and it's projected to grow 27% in FY2017-18e.

Similarly, there is a slowdown in the growth of mobile payments as a percentage of overall phone-paid service revenues. Since FY2014-15, the increase has dropped from 15% to 7% and most recently 4%, respectively.

The slowdown of mobile payment growth

Fig. 12



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

2

SECTION 2: THE PHONE-PAID SERVICES CONSUMER

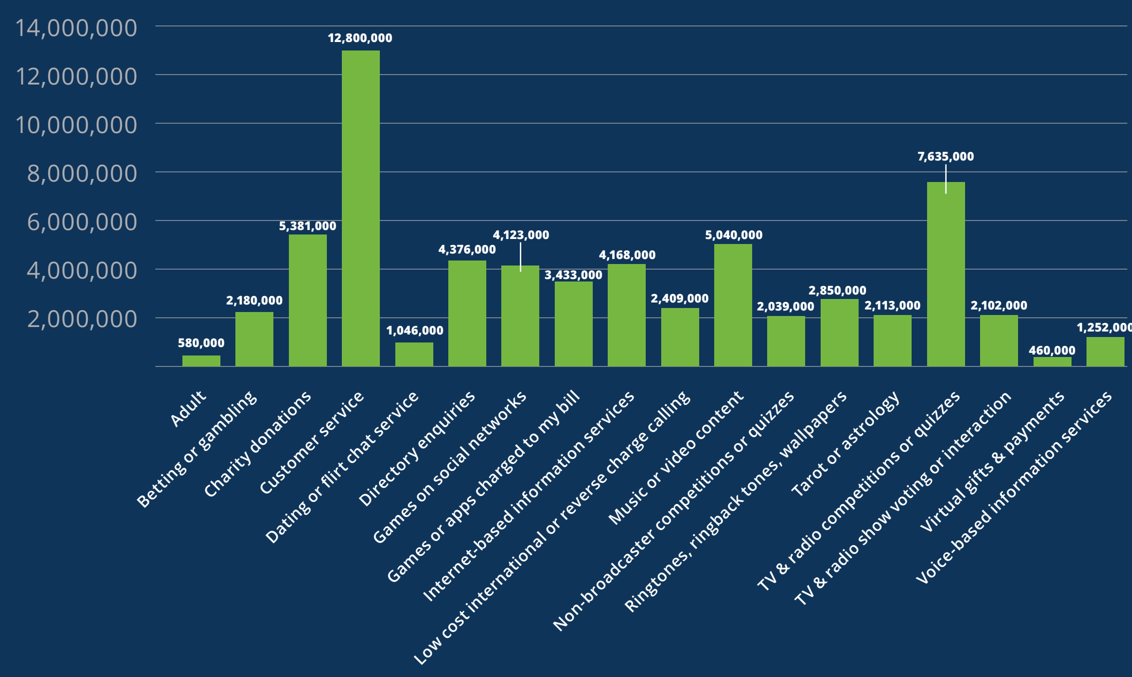
Consumers consolidating usage

There were 22.7 million consumers of phone-paid services in FY2016-17, representing a drop of 1% on the previous year, based on extensive consumer research[3]. On average, each phone-paid service had 3.6 million users, which was a drop of 5.4% on FY2015-16, and indicates consumers are consolidating the number of phone-paid services they use.

Of the total 18 service types, five had an above average user base, led by customer service which continues to have the largest user base (12.8 million), and remains considerably ahead of TV & radio competitions or quizzes (7.6 million), and charity (5.4 million). The three smallest services were dating or flirt chat services (1 million), adult (0.6 million) and virtual gifts and payments (0.5 million).

Phone-paid service users by service type, FY2016-17

Fig. 13



Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q1: In the last 12 months please identify which of the following phone call-based or mobile-accessed goods or services (phone-paid services, also known as premium rate services) you have used and the cost that has appeared on your phone bill? Multiple choice. Base n=3,000.

Interestingly, during a sustained period of declining voice usage, both dating or flirt chat services (15.7%) and tarot or astrology (8.6%), experienced a year-on-year increase in their user base. But it was ringtones, ringback tones, and wallpapers that experienced the greatest year-on-year user growth (72.8%), followed by music or video content (48.6%), and internet-based information services (34.1%).

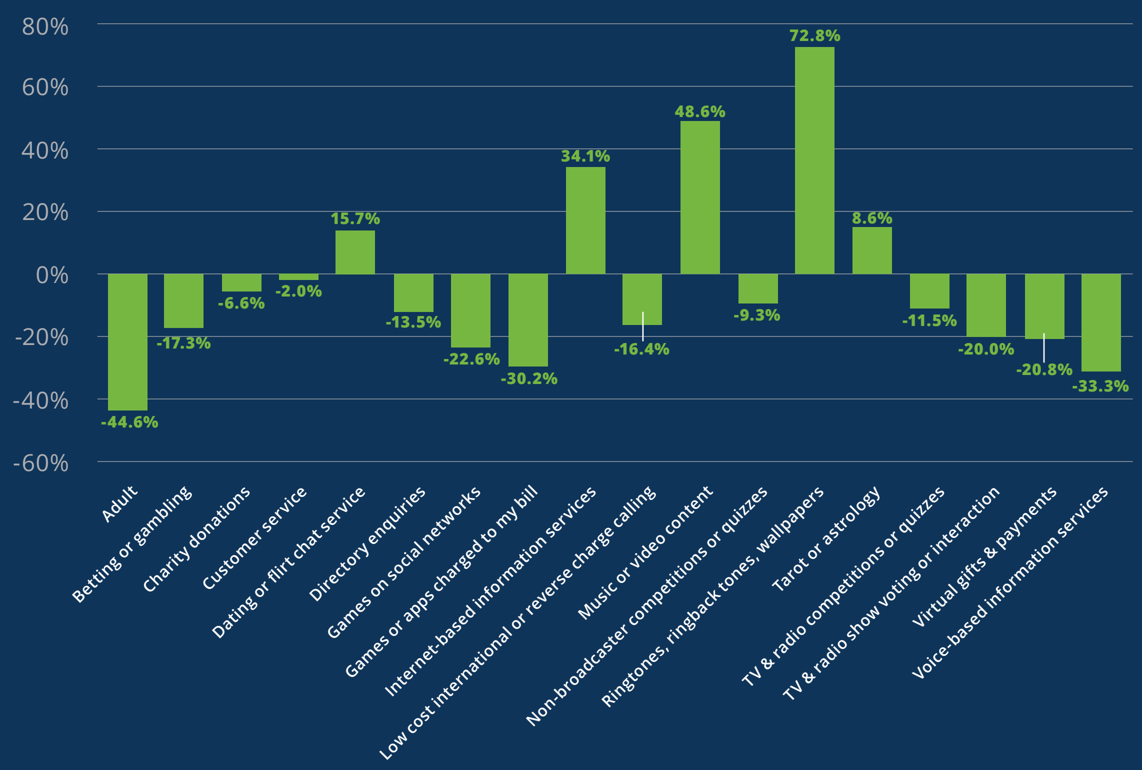
Both music or video content, and internet-based information services are two of the five categories driving the adoption of operator billing, but the other three categories have not performed as well. Games or apps charged to my bill experienced a year-on-year fall in users of 30.2%, games on social networks a drop of 22.6% and betting or gambling 17.3%. This is likely to be a contributing factor as to why growth in operator billing has slowed down during the last financial year. However, given that these three services all experienced a year-on-year increase in revenues from a declining user base, this again indicates that consumers have increased their spend via operator billing.

[3] See Methodology

The majority of phone-paid services experienced a year-on-year fall in their user base, and explains why the average phone-paid service user base dropped 3.8%. Adult suffered the greatest drop (44.6%), followed by voice-based information services (33.3%).

Year-on-year % change of phone-paid service users by service type

Fig. 14



Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q1: In the last 12 months please identify which of the following phone call-based or mobile-accessed goods or services (phone-paid services, also known as premium rate services) you have used and the cost that has appeared on your phone bill? Multiple choice. Base n=3,000. Phone-paid Services Authority quantitative consumer survey, Q1, March 2016.

Average revenue per user

The average revenue per user for phone-paid services in FY2016-17 was £15.69, up 37% on the previous year. Given that the average phone-paid service user base dropped 3.8%, this reveals that fewer people are spending more via phone-paid services year-on-year. This is best highlighted by adult services and betting or gambling.

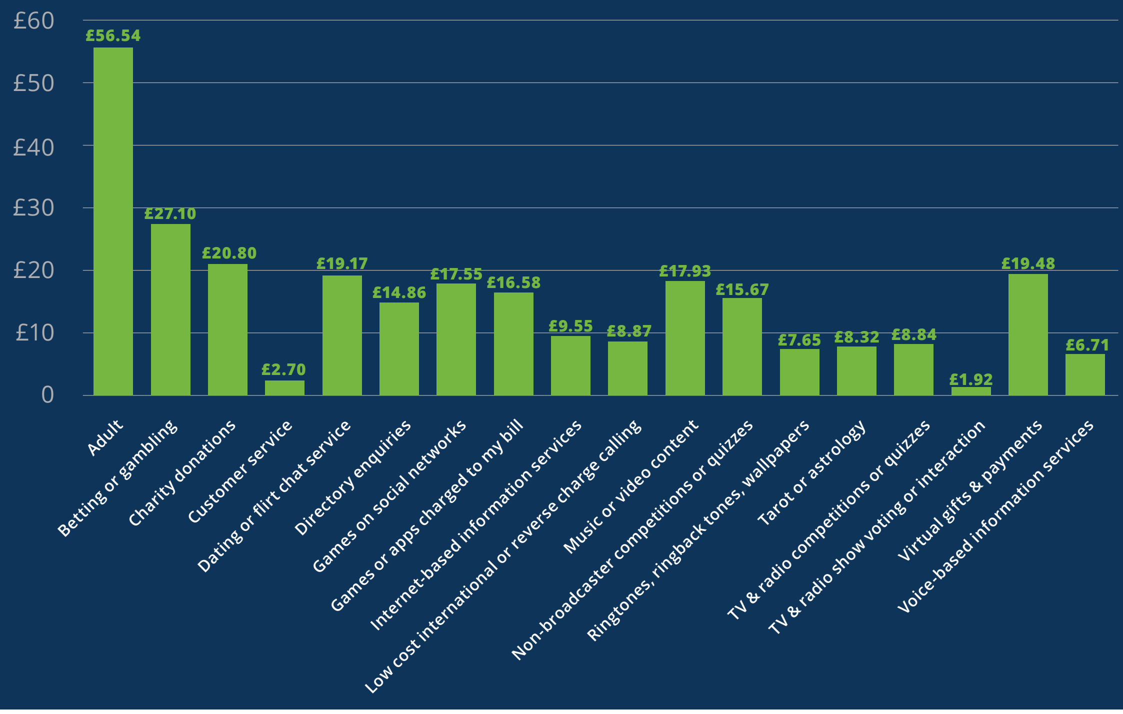
Adult services had the highest ARPU in FY2016-17 of £56.54, ahead of betting or gambling on £27.10. Both of these services experienced a sizeable year-on-year decline in users, yet both have enjoyed a marked increase in ARPU compared to the previous financial year. Adult ARPU has increased 47% year-on-year, while betting or gambling increased 32%.

Games or apps charged to my bill experienced the largest year-on-year ARPU increase, of 88%, followed by TV or radio competitions or quizzes (74%), and virtual gifts and payments[4] (56%).

[4] See Service taxonomy update in Methodology

ARPU, FY2016-17

Fig. 15



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Why use phone-paid services?

The reasons consumers use phone-paid services have largely remained static year-on-year, with convenience and occasional usage accounting for more than half of total users, ahead of unique content, liking the content, and value for money. However, just 15% of phone-paid service users claim to have increased their usage of services compared to the previous 12 months, with 43% stating their usage remained the same. But it is the 42% of users that have either decreased their usage over the last 12 months (25%) or have stopped using altogether (17%), that will be of greatest concern to the phone-paid service industry.

> ***Services with most users increase usage over last 12 months: Adult content, dating or flirt chat services, virtual gifts & payments.***

Why use Phone-paid services?

- Convenience
- I can't get the conent/service anywhere else
- It offers good value for money
- I use them on occasion
- I like the content/service

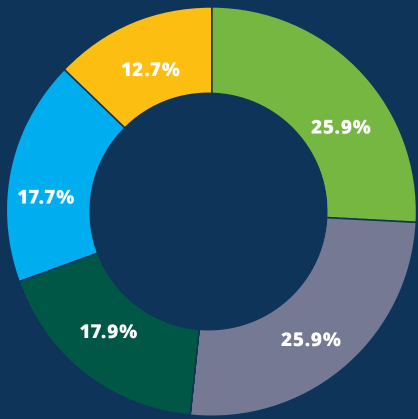


Fig. 16

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q5: Why did you use the content/these services? Multiple choice. Base n=3,000.

Why did consumers stop using phone-paid services?

The 17% of users that claimed to have stopped using phone-paid services during FY2016-17 accounted for almost 4 million users, up 1 million on the number of users that claimed to have stopped using phone-paid services during FY2015-16.

Services experiencing the most stops: Tarot or astrology, dating or flirt chat services, internet-based information services.

Trust

Trust continues to play an integral role in the usage of phone-paid services. The consumer research points to a growing level of mistrust among phone-paid service users. Seventy percent of phone-paid service users said trust influenced their decision-making process with regards to the usage of phone-paid services – up on the previous year's figure of 66%. But when phone-paid service users were asked whether their trust had been compromised during the previous 12 months, 32% claimed it had – up from 29% in FY2015-16 which equates to 7.3 million users.

Services with the highest levels of trust: Charity, TV or radio show voting or interaction, and TV or radio show competitions or quizzes.

Services where trust has been compromised the most: Tarot or astrology, adult content, and virtual gifts and payments.

Satisfaction and Net Promoter Score

Overall, 55% of phone-paid service users are either satisfied (40%) or very satisfied (15%) with their content or service – which is an increase of 6% on last year's research findings. This broadly translates to the number of users that have maintained or increased their usage. The number of users that were dissatisfied (8%) or totally dissatisfied (6%) was 14%.

Most satisfied/totally satisfied users (as % of that sector's users): Charity (74%), music or video content (66%), ringtones, ringback tones, wallpapers (65%).

Most dissatisfied/totally dissatisfied users (as % of that sector's users): Tarot or astrology (23%), customer service (21%), and non-broadcaster competitions or quizzes (20%).

When the satisfaction ratings (i.e. those users that are totally satisfied) are converted into the Net Promoter Score[5] (NPS) the phone-paid service industry collectively scored -31 (negative 31), which is an increase on the previous year's score of -36 (negative 36).

Highest NPS score: Charity (5), music or video content (-15), ringtones, ringback tones, wallpapers (-17).

Lowest NPS score: Customer service (-48), non-broadcaster competitions or quizzes (-43), and adult content (-40).

User experience

In FY2016-17, 59% of phone-paid service users said that the content or service they purchased was exactly what they were expecting. That figure correlates to the number of phone-paid service users that have either increased or maintained their usage over the last 12 months. This indicates that as long as the content or service is clearly advertised and the consumer is absolutely clear what it is they have purchased, they are increasingly likely to maintain or increase their usage of that content or service. It is therefore when consumer expectations are not met, that issues arise.

Forty one percent of phone-paid service users did not receive what they were expecting which either was not a problem (24%) or was a problem (17%). Again, this latter figure correlates with the number of phone-paid service users that claimed to have stopped using the service in FY2016-17.

Best user experience: Charity, TV or radio show voting or interaction, and TV or radio show competitions or quizzes.

Worst user experience: Dating or flirt chat service, virtual gifts and payments, and customer service.

[5] NPS is based on the percentage of users that select "very satisfied" would be considered as "promoters". See Methodology for more information.

What problems have you had with the service?

What problems have you had with the service?

- The content/service was not good
- The price was higher than I expected
- I received spam SMS following the purchase
- I did not know what I was purchasing/signing up to
- I did not sign up to a subscription service
- The content/service was not what was advertised

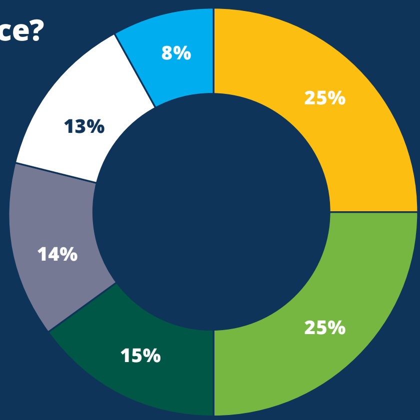


Fig. 17

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q9: What was the problem with the service? Multiple choice. Base n=656

Having identified a problem, just under two-thirds of these phone-paid service users failed to act, either because they simply chose not to (34% of total phone-paid service users experiencing a problem), or because they did not know who to speak to (29%). The remaining 37% claimed to either have contacted their telecoms provider (18%), the service provider (17%), or the regulator (2%).

But the impact of a problem on a phone-paid service user is explicit. Although 14% of users continued to use the service regardless, 84% of users will have either decreased their usage (27%), stopped using altogether (32%), or intend to stop using (27%).

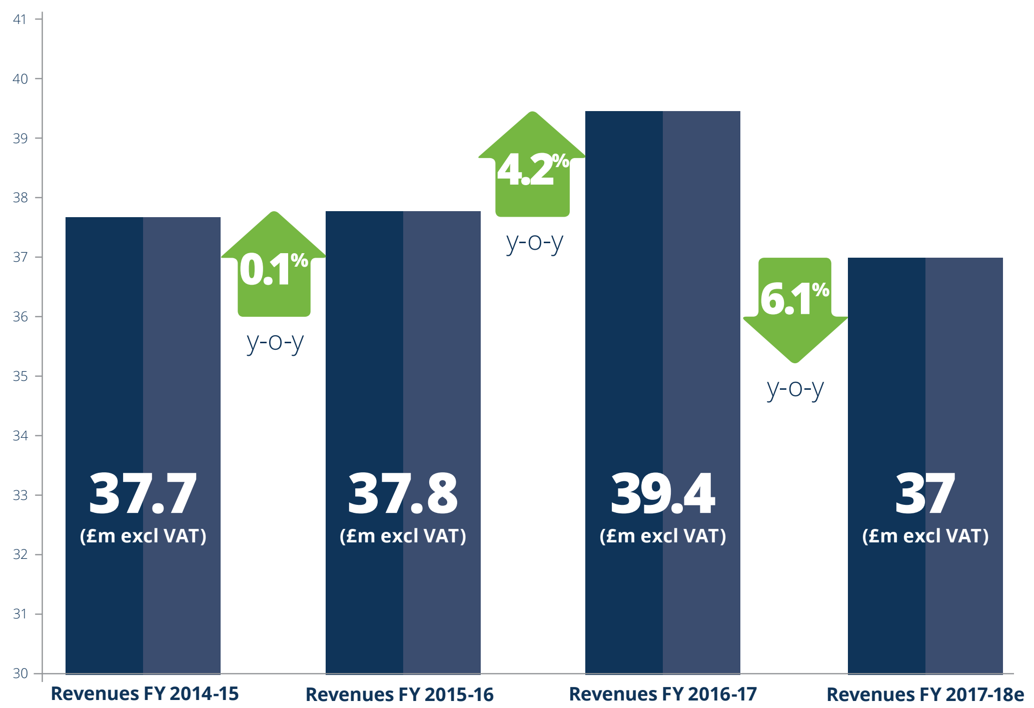
Problems associated with a phone-paid service accounted for 2.3 million consumers stopping using the service, which is 58% of total users that have stopped using phone-paid services in the financial year. This also highlights that there is a natural drop-off of users: 42% of people stopped using phone-paid services for non-problematic reasons.

The average monthly drop-off of consumers for problem-related issues was 190,000 compared to 139,000 for non problem-related issues.

3

SECTION 3: SERVICE DATA

AVERAGE PHONE-PAID SERVICE USAGE



ARPU
£15.69
y-o-y
36%

Has your trust ever been compromised?

YES **36%**

3,555,000 total users

I use these services more than I did 12 months ago **569,000**

My usage has remained consistent **1,600,000**

I use these services less than I did 12 months ago **853,000**

I no longer use these services **533,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **15%**

Net Promoter Score **-31**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

59% It was exactly what I was expecting

25% It wasn't what I was expecting, but that was not a problem

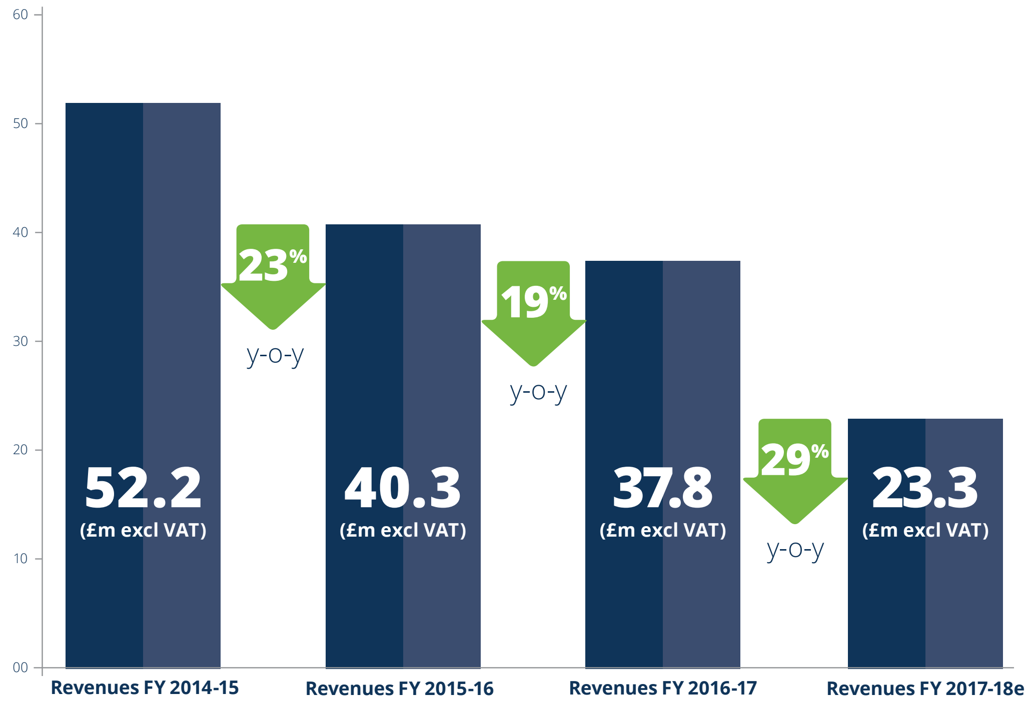
12% It was not what I was expecting, which was a problem

4% There was a problem

KEY FINDINGS

- Average revenues per phone-paid service have increased year-on-year since FY2014-15 to FY2016-17. However, the last financial year represents something of an anomaly based on the exponential increase in advertising spend regarding online competitions and quizzes, resulting in an artificially high average spend figure for the period. The figure is projected to drop by 6.1% in FY2017-18.
- On average, 28% of consumers use phone-paid services for convenience, followed by 22% claiming they like the service, and 20% based on impulse.
- The average phone-paid service has 3.1 million users, and lost 432,000 throughout the financial year, at an average of 36,000 per month.
- The phone-paid services industry has an average Net Promoter Score of -31, with 15% of users per service likely to be Promoters.

ADULT SERVICES



ARPU
£56.54
y-o-y
47%

Has your trust ever been compromised?

YES **50%**

580,000 total users

I use these services more than I did 12 months ago
139,000

My usage has remained consistent
255,000

I use these services less than I did 12 months ago
122,000

I no longer use these services
64,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **14%**

Net Promoter Score **-40**

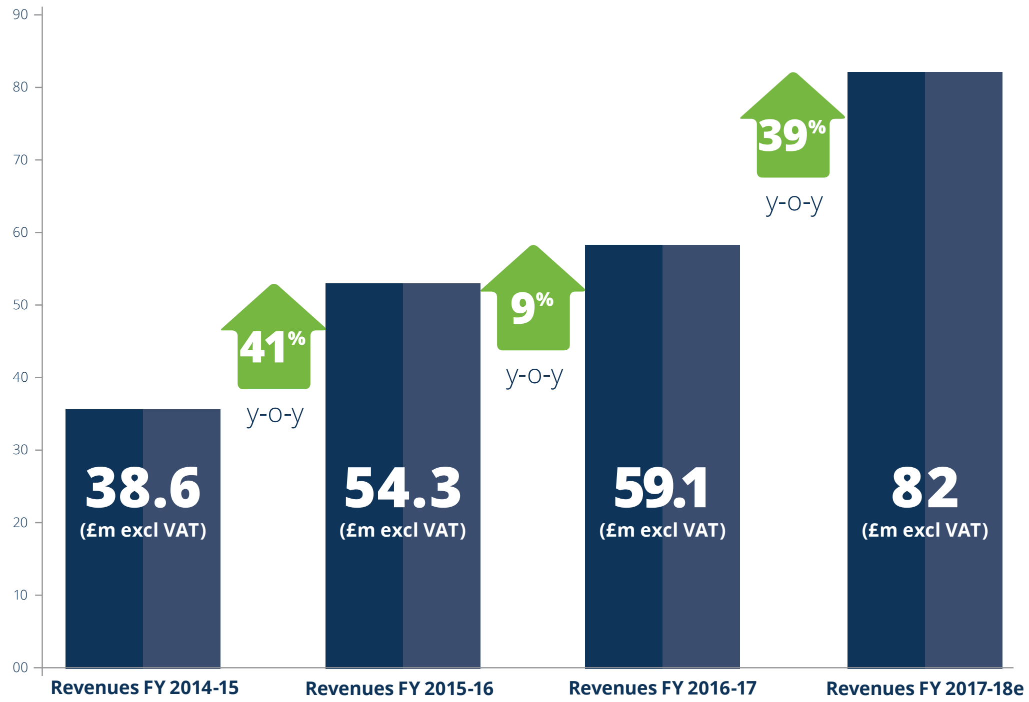
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

46%	34%	16%	4%
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- Adult chat revenues have stayed largely the same year-on-year, although video services have been affected by the special conditions introduced by the Phone-paid Services Authority (PSA), and the PayforIt (PFI) mandates from mobile operators in Q3 FY2016-17.
- Advertising of adult services stopped at the end of Q3 FY2016-17 with conversion rates dropping to around 3%. Subsequently, very few new users are being attracted to adult video services, leaving revenues for video derived largely from residual users.
- Adult chat services are propping up the sector. Increases in per-minute charges to £2 and above have maintained year-on-year spend despite a drop in call volumes.
- Revenues have dropped 19% between FY2015-16 and FY2016-17 from £40.3 million to £32.8 million, and forecast to drop 29% in FY2017-18 as residual users of video services drop off.
- The consumer research reveals that the number of consumers using phone-paid services to purchase adult content is 580,000, which generate the highest ARPU (Average Revenue Per User) across all phone-paid services of £56.5.

BETTING, GAMBLING AND LOTTERIES



ARPU
£27.10
y-o-y
32%

Has your trust ever been compromised?

YES **30%**

2,180,000 total users

I use these services more than I did 12 months ago
414,000

My usage has remained consistent
1,047,000

I use these services less than I did 12 months ago
414,000

I no longer use these services
305,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **13%**

Net Promoter Score **-27**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

64% It was exactly what I was expecting

23% It wasn't what I was expecting, but that was not a problem

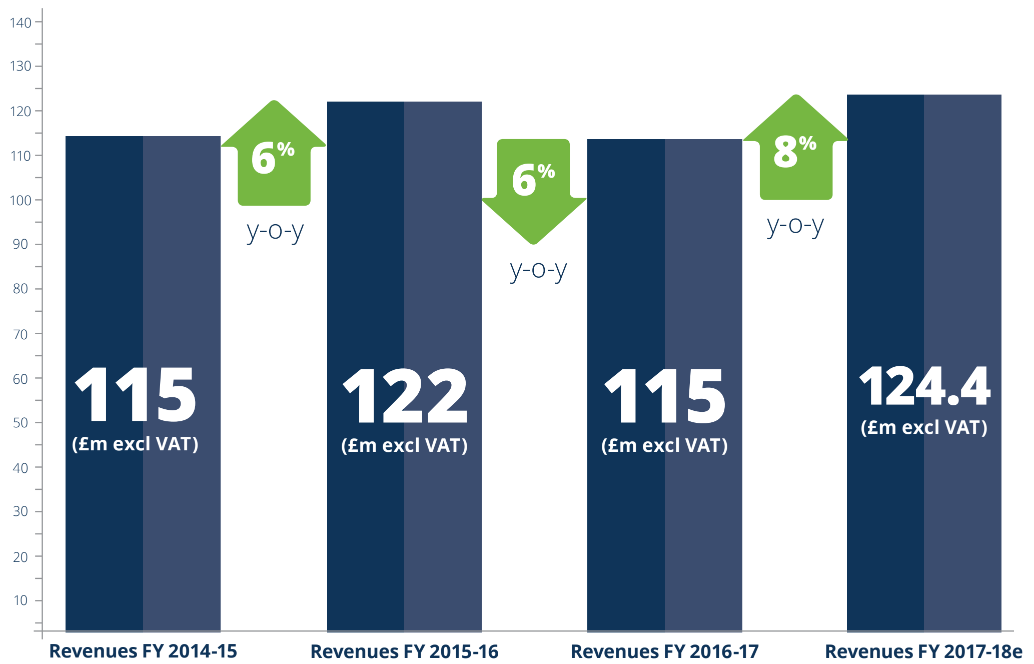
10% It was not what I was expecting, which was a problem

3% There was a problem

KEY FINDINGS

- Operator billing continues to contribute significant revenues to the gambling and betting sectors. Revenues increased 9% from FY2015-16 to FY2016-17 to £59.1 million.
- Operator billing will not become a replacement for credit card or PayPal, but an alternative payment mechanism for acquisition and basket abandonment.
- Industry believes the revenues would be considerably bigger if spending caps were removed.
- In FY2017-18 the service is expected to grow 39%, the most of any of the 18 phone-paid services categories, attributed to the sustained organic growth of gambling and betting via operator billing, but also due to the expected introduction of "society lotteries".

CHARITY DONATIONS



ARPU £20.80
y-o-y **2%**

Has your trust ever been compromised?

YES **22%**

5,381,000 total users

I use these services more than I did 12 months ago **700,000**	My usage has remained consistent **3,498,000**
I use these services less than I did 12 months ago **753,000**	I no longer use these services **430,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **30%**

Net Promoter Score **5**

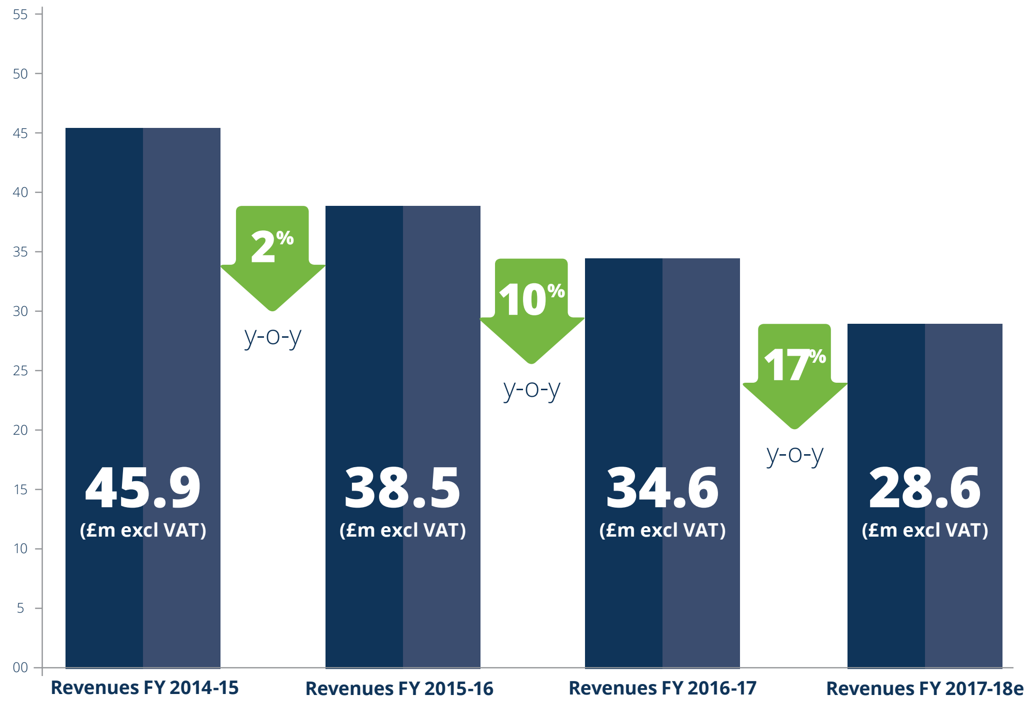
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

86%	8%	5%	1%
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- Donations were hit by changes in regulation (see bullet 3) regarding how charities can fundraise, resulting in a drop in donations via text from £122 million in FY2015-16 to £115 million in FY2016-17.
- Telethon fundraising activity accounted for approximately 60% of donations in FY2016-17, with the market successfully introducing the £20 donation price point. Non-broadcast charities are now looking at introducing the £20 price point.
- The Fundraising Regulator has deemed the soft opt-in model adopted by charities as inappropriate (in accordance with the introduction of General Data Protection Regulation (GDPR) in May 2018), prompting charities to use TV advertising to drive subscription-based giving as opposed to a one-off donation. Consequently, the number of one-off donations has dropped significantly (contributing to the overall decline in revenues).
- The rise of monthly giving now generating significant pace, and will have a positive impact on total donations in FY2017-18, with projections of £124.4 million, up 8% on the previous year. The starting point for monthly giving is £3 with the longer term view of migrating onto £5.
- The provision of GiftAid now viewed as the next big challenge facing the sector. Although the number of users providing GiftAid following a mobile-based donation has increased from around 20% to around 35%, this is significantly lower than the 90% figure for online donations.

CUSTOMER SERVICE 087



ARPU £2.70
y-o-y **8%**

Has your trust ever been compromised?

YES **28%**

12,800,000 total users

I use these services more than I did 12 months ago **1,408,000**	My usage has remained consistent **6,272,000**
I use these services less than I did 12 months ago **3,200,000**	I no longer use these services **1,920,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **9%**

Net Promoter Score **-48**

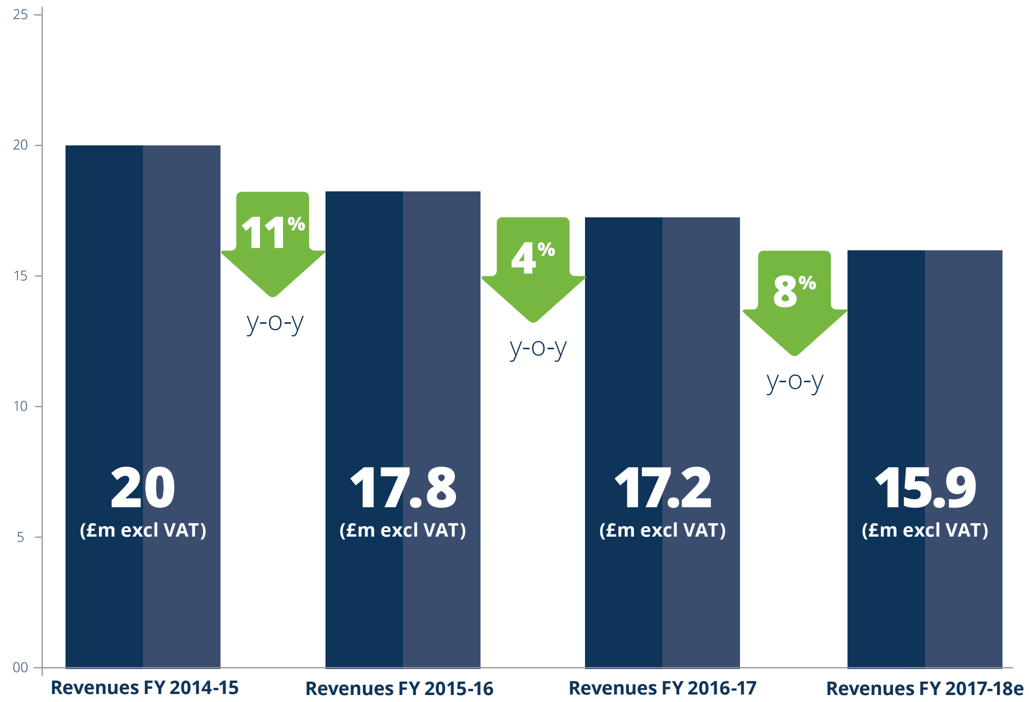
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/SERVICE ONCE YOU HAD PURCHASED IT?

60%	**21%**	**13%**	**6%**
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- 087 continues to be the largest phone-paid service in terms of users, even though the majority of their usage is infrequent and explains why the Average Revenue Per User (ARPU) is the lowest across all phone-paid services (£2.70).
- Continued usage of customer service voice services is being driven by companies providing a poor multichannel engagement user experience. Companies providing a contextualised service (i.e. engagement based on where the consumer is at that time) are offering chat (including chatbots), email, IVR, as means to reduce operating costs by minimising time agents spend talking to customers. This is prompting consumers to crave human interaction via a phone call.
- An increase in lower 087-priced traffic has failed to offset the decline in revenues, with the service experiencing a 10% drop between FY2015-16 and FY2016-17, with a projected drop of 17% in the next financial year as companies enhance their multichannel engagement strategies.

DATING OR FLIRT CHAT SERVICES



ARPU £19.17

y-o-y **3%**

Has your trust ever been compromised?

YES **43%**

1,046,000 total users

I use these services more than I did 12 months ago **209,000**

My usage has remained consistent **408,000**

I use these services less than I did 12 months ago **230,000**

I no longer use these services **199,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **14%**

Net Promoter Score **-34**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

34% It was exactly what I was expecting

39% It wasn't what I was expecting, but that was not a problem

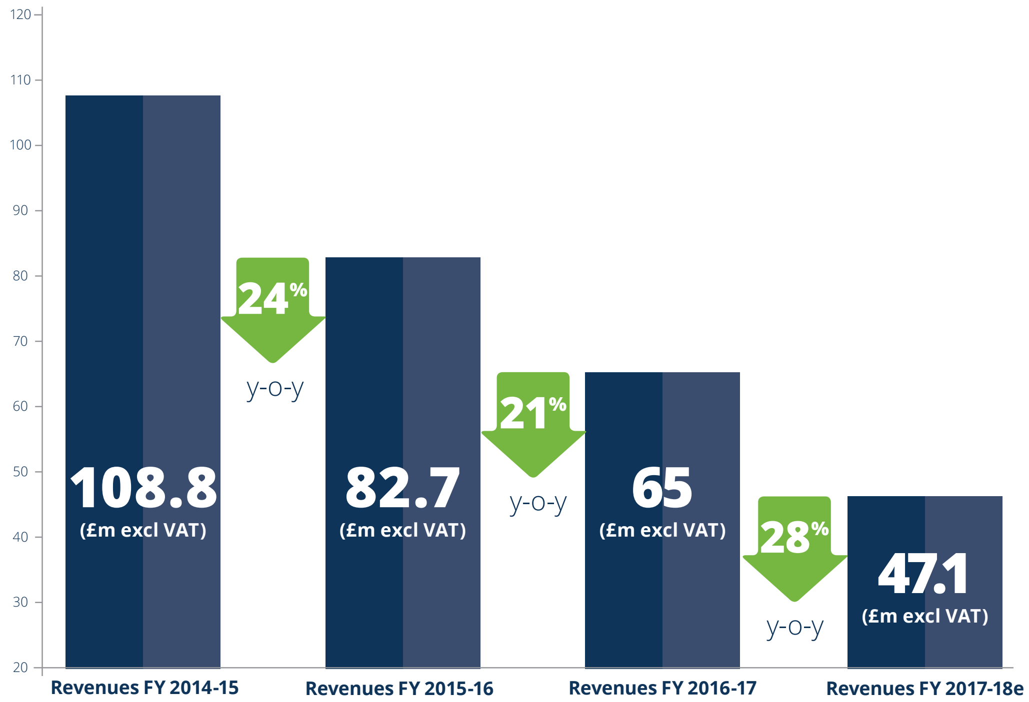
20% It was not what I was expecting, which was a problem

7% There was a problem

KEY FINDINGS

- The service continues to be hit by apps such as Tinder and WhatsApp, and a move to the web, with revenues down 4% to £15.9 million.
- A further fall in revenues of 8% is expected in FY2017-18.
- Overall, the industry sees the UK's dating scene is viewed as, prompting a number of high profile brands to consider adopting operator billing as a payment mechanism to pay for chats, credits and subscriptions.
- The consumer research suggests a 15.7% increase in the number of users using dating or flirt chat services between FY2015-16 and FY2016-17 paying via phone-paid services, however, the decline in revenues indicates that users are spending less time on the service.

DIRECTORY ENQUIRIES



ARPU
£14.86
y-o-y
9%

Has your trust ever been compromised?

YES
34%

5,059,000 total users

I use these services more than I did 12 months ago
658,000

My usage has remained consistent
2,125,000

I use these services less than I did 12 months ago
1,467,000

I no longer use these services
809,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter)
10%

Net Promoter Score
-39

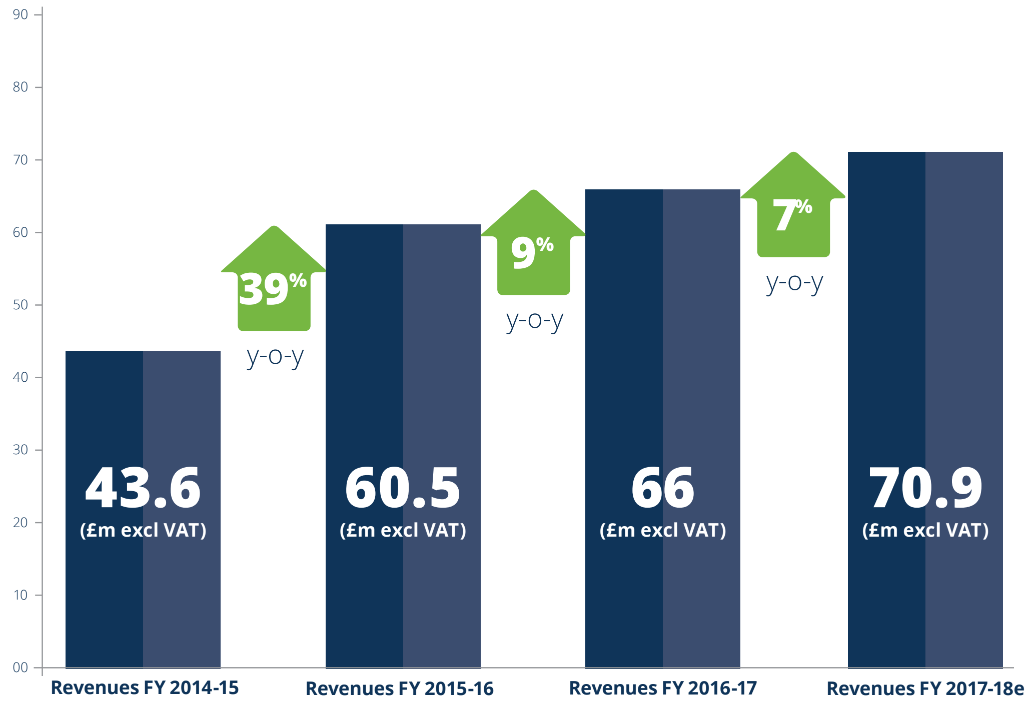
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

63%	19%	13%	5%
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- Revenues have dropped 21%, and projected to fall 28% in FY2017-18 as the market bottoms out delivering service providers with a long tail revenue stream.
- DQ remains the largest of the traditional phone-paid services in terms of revenues, and continues to be the largest voice service, however, it is also experiencing the largest y-o-y decline in revenues of all voice-based services.
- Activity on DQ largely associated with residual calling, made by consumers that are either using their business phones or natural number recognition based on consumer's ability to remember short numbers (i.e. 118 ...). Significant numbers of new customers are not coming on board.
- A number of DQ services closed during FY16-17.

GAMES ON SOCIAL NETWORKS



ARPU
£17.55
y-o-y
54%

Has your trust ever been compromised?

YES
36%

4,123,000 total users

I use these services more than I did 12 months ago
783,000

My usage has remained consistent
1,938,000

I use these services less than I did 12 months ago
825,000

I no longer use these services
577,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter)
15%

Net Promoter Score
-27

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

61% It was exactly what I was expecting

25% It wasn't what I was expecting, but that was not a problem

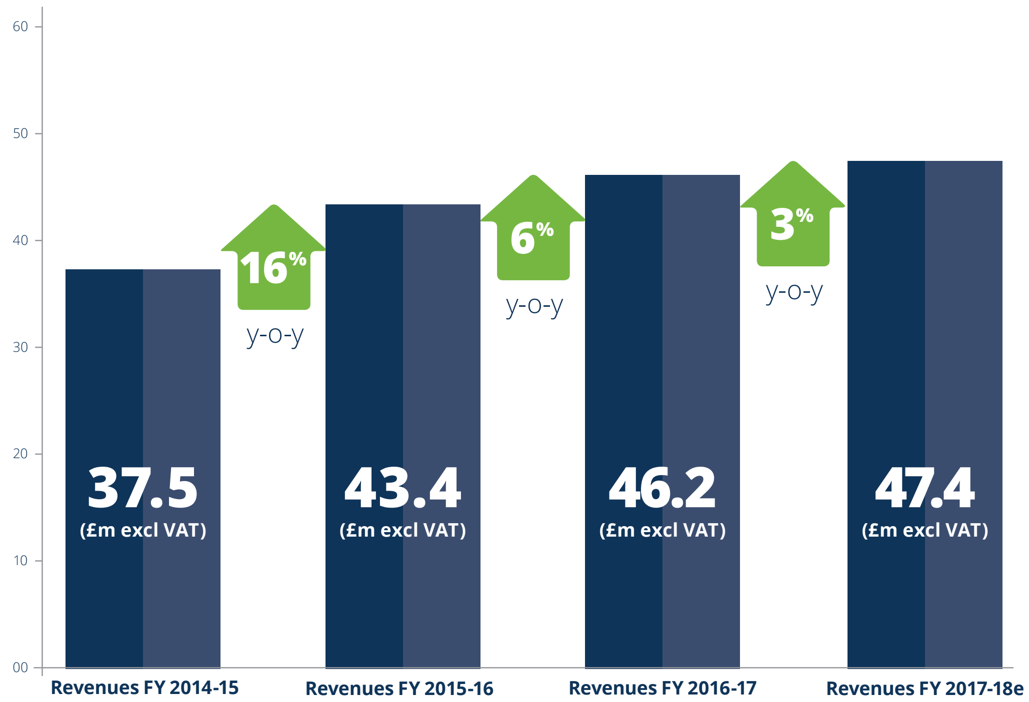
10% It was not what I was expecting, which was a problem

4% There was a problem

KEY FINDINGS

- Gaming on Facebook continues to generate significant revenues using operator billing as the payment mechanism.
- Revenues up from £60.5 million in FY2015-16 to £66 million in FY2016-17, an increase of 9%.
- However, according to the consumer research the number of users have dropped from 5.3 million users in FY2015-16 to 4.1 million users in FY2016-17.

GAMES OR APPS CHARGED TO BILL



ARPU
£16.58
y-o-y
88%

Has your trust ever been compromised?

YES **32%**

3,433,000 total users

I use these services more than I did 12 months ago
621,000

My usage has remained consistent
1,675,000

I use these services less than I did 12 months ago
788,000

I no longer use these services
349,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **13%**

Net Promoter Score **-27**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

62% It was exactly what I was expecting

27% It wasn't what I was expecting, but that was not a problem

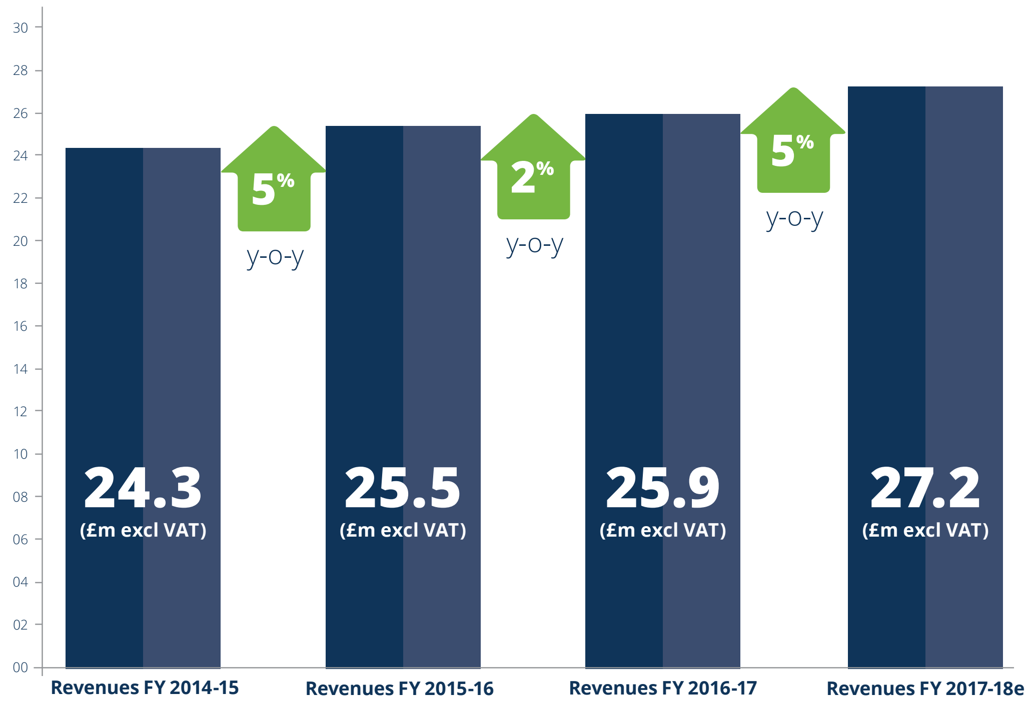
9% It was not what I was expecting, which was a problem

2% There was a problem

KEY FINDINGS

- The rapid revenue growth between FY2045-15 and FY2015-16 has not been sustained, with the sector growing 6% in FY2016-17 and generating revenues of £46.2 million.
- Traditional subscription games services continue to experience a decline in revenues.
- Pricing models becoming increasingly disparate between some L2s, with subscription models both increasing and decreasing depending on the merchant, with weekly charges now ranging from £0.99 to £4.00.
- Purchases of apps (primarily games) via app stores using operator billing did not experience growth between FY2015-16 and FY2016-17.
- Revenue growth predicted at 3% in FY2017-18 as increased competition in the games market from white-labelled subscription services is expected to drive prices down.

INTERNET-BASED INFORMATION SERVICES



ARPU
£9.55
y-o-y
16%

Has your trust ever been compromised?

YES **31%**

4,168,000 total users

I use these services more than I did 12 months ago
591,000

My usage has remained consistent
1,872,000

I use these services less than I did 12 months ago
925,000

I no longer use these services
780,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **13%**

Net Promoter Score **-28**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

63% It was exactly what I was expecting

25% It wasn't what I was expecting, but that was not a problem

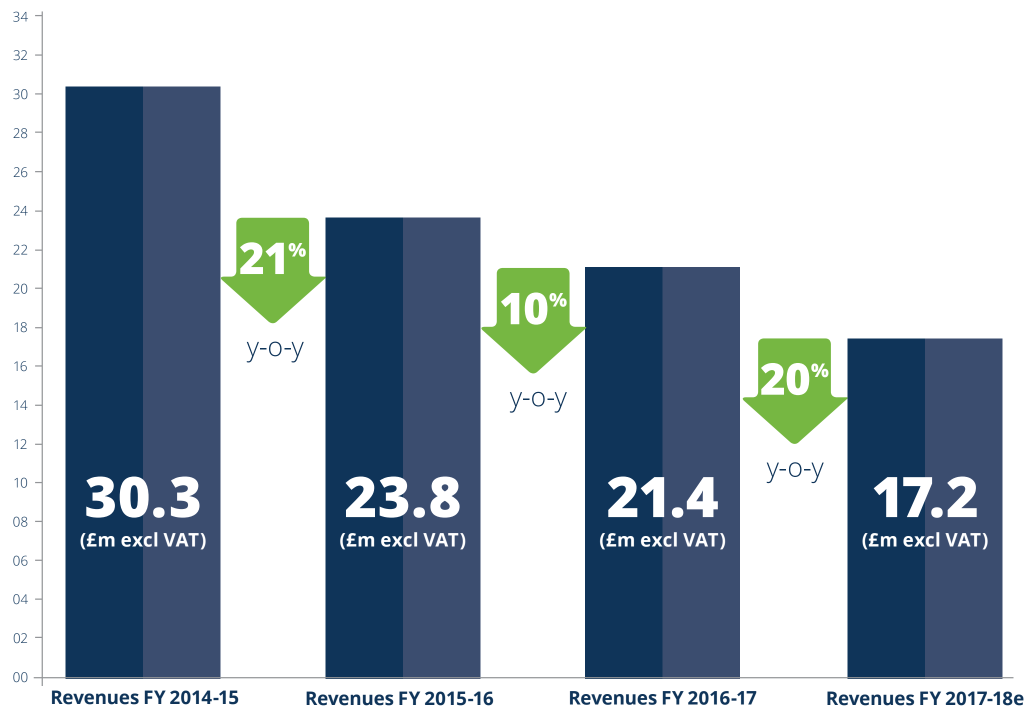
10% It was not what I was expecting, which was a problem

3% There was a problem

KEY FINDINGS

- Despite being identified as one of the key areas to drive phone-paid services forward into the next generation of services adopting operator billing in the previous Annual Market Review, growth has been negligible at just 2% year-on-year.
- Publishers have been slow to introduce a micro payments-based pay wall – viewed by industry as the ideal service type for pay-per-article payments – despite a big drop in advertising revenues.
- Revenues of £25.9 million in FY2016-17 are only expected to increase 5% to £27.2 million in FY2017-18 as uncertainty surrounding operator billing and PSD2 prevails.
- The revenue share model on pay-per-article has yet to materialise; publishers are concerned that mobile operators will demand between 20-30% per micro transaction.

LOW COST INTERNATIONAL OR REVERSE CHARGE CALLING



ARPU
£8.87
y-o-y
8%

Has your trust ever been compromised?

YES **32%**

2,409,000 total users

I use these services more than I did 12 months ago
337,000

My usage has remained consistent
1,253,000

I use these services less than I did 12 months ago
530,000

I no longer use these services
289,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **16%**

Net Promoter Score **-27**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/SERVICE ONCE YOU HAD PURCHASED IT?

62% It was exactly what I was expecting

25% It wasn't what I was expecting, but that was not a problem

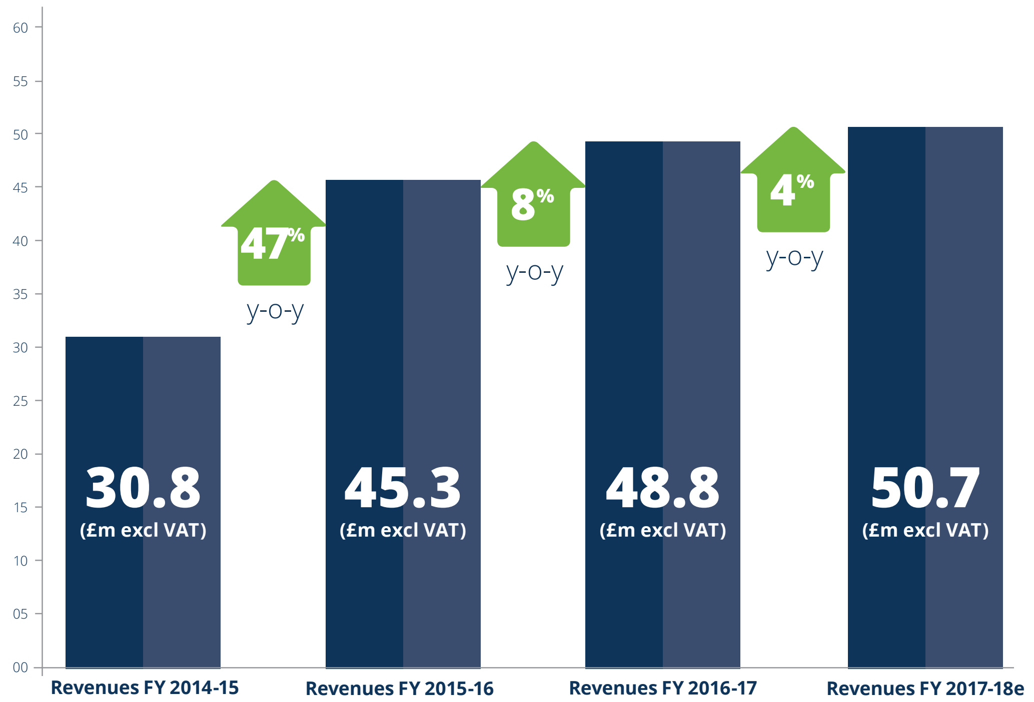
10% It was not what I was expecting, which was a problem

3% There was a problem

KEY FINDINGS

- OTT (over the top) alternative communication services, such as Skype and Viber, not to mention the addition of voice to WhatsApp (and voice messaging via Facebook Messenger) have continued to impact on revenues of low-cost international or reverse charge calling.
- Revenues are down 10% from £23.8 million in FY2015-16 to £21.4 million FY2016-17, fuelled by the decrease in the number of users from 2.9 million to 2.4 million.
- The decline in revenues is predicted to accelerate in FY2017-18, with an additional 20% fall expected.

MUSIC OR VIDEO CONTENT



ARPU
£17.93
y-o-y
34%

Has your trust ever been compromised?

YES **31%**

5,040,000 total users

I use these services more than I did 12 months ago
907,000

My usage has remained consistent
2,520,000

I use these services less than I did 12 months ago
1,008,000

I no longer use these services
605,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **20%**

Net Promoter Score **-15**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

67% It was exactly what I was expecting

21% It wasn't what I was expecting, but that was not a problem

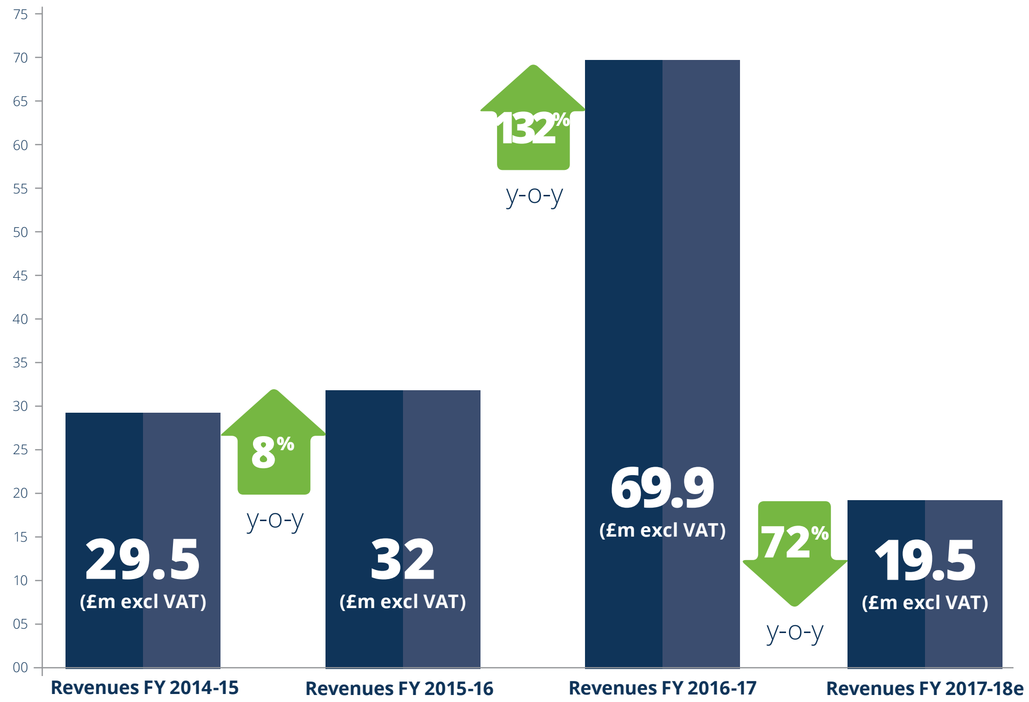
9% It was not what I was expecting, which was a problem

3% There was a problem

KEY FINDINGS

- The sector grew by 8% in FY2016-17 to £48.8 million, with music services contributing the majority of revenues.
- Video services were on the rise in FY2016-17, with video download services emerging containing silly videos and bloopers.
- Spotify previously viewed by industry as the model service for operator billing, yet it is video services based on the Netflix model that is inspiring similar services using operator billing in FY2017-18.
- Google is expected to launch a YouTube-based video subscription service using operator billing.
- Industry research revealed a number of L2s intend to launch video-based services in FY2017-18 based on niche services, such as fishing and martial arts. Subscription models will be based on £3 and £5 per month and use operator billing.

NON-BROADCASTER COMPETITIONS OR QUIZZES



ARPU £15.67

y-o-y **17%**

Has your trust ever been compromised?

YES **41%**

2,039,000 total users

I use these services more than I did 12 months ago **347,000**

My usage has remained consistent **856,000**

I use these services less than I did 12 months ago **510,000**

I no longer use these services **326,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **13%**

Net Promoter Score **-43**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

55% It was exactly what I was expecting

29% It wasn't what I was expecting, but that was not a problem

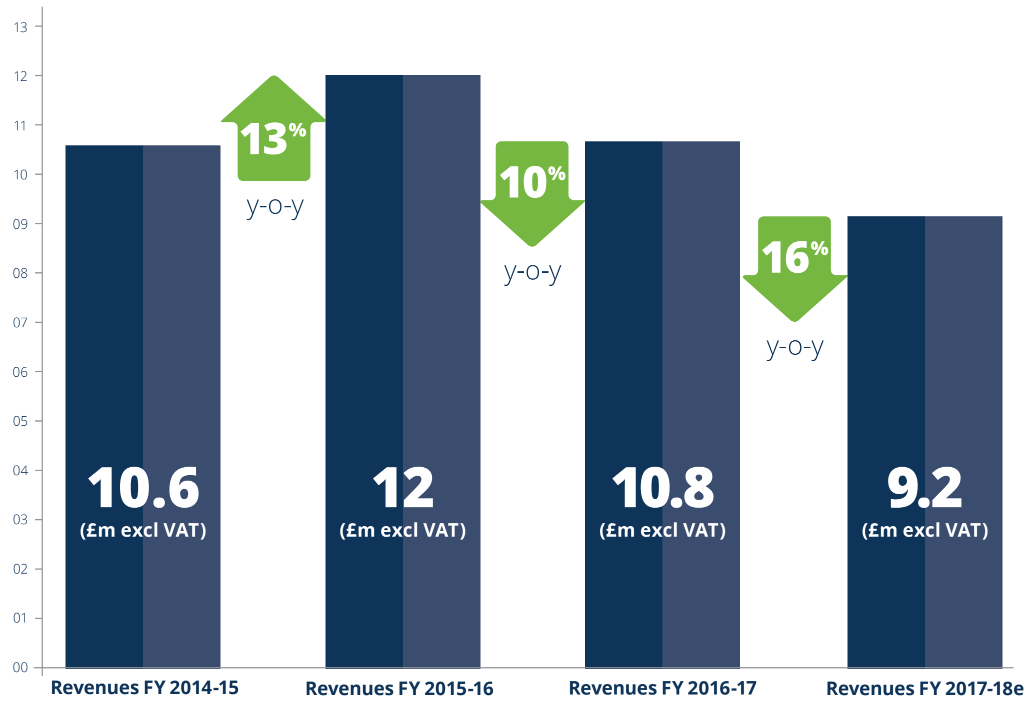
13% It was not what I was expecting, which was a problem

3% There was a problem

KEY FINDINGS

- Artificially high revenues of £69.9 million represents an increase of 132% between FY2015-16 and FY2016-17, generated from companies ramping up their advertising spend in the first half of FY2016-17 in advance of the special conditions introduced by the Phone-paid Services Authority (PSA), and the PayforIt (PFI) mandates from mobile operators in Q3 FY2016-17.
- Advertising of online competitions has largely stopped as conversion rates dropped to between 2%-5% from Q3 FY2016-17, although a small number of L2s have persisted and are starting to discover successful flows and acquiring new customers.
- Online competitions account for approximately 90% of revenues, with offline competitions 10%, in FY2016-17. However, in FY2017-18, offline competitions will account for around one-third of revenues.
- Revenues in FY2017-18 are projected to plummet 72% as limited new customers leaves the majority of merchant revenues coming from residual user spend.
- The special conditions and mobile operator mandates have resulted in a significant drop off of consumer enquiries to call centres regarding online competitions.

RINGTONES, RINGBACK TONES & WALLPAPER



ARPU
£7.65
y-o-y
6%

Has your trust ever been compromised?

YES **34%**

2,850,000 total users

I use these services more than I did 12 months ago **349,000**	My usage has remained consistent **1,061,000**
I use these services less than I did 12 months ago **970,000**	I no longer use these services **470,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **18%**

Net Promoter Score **-17**

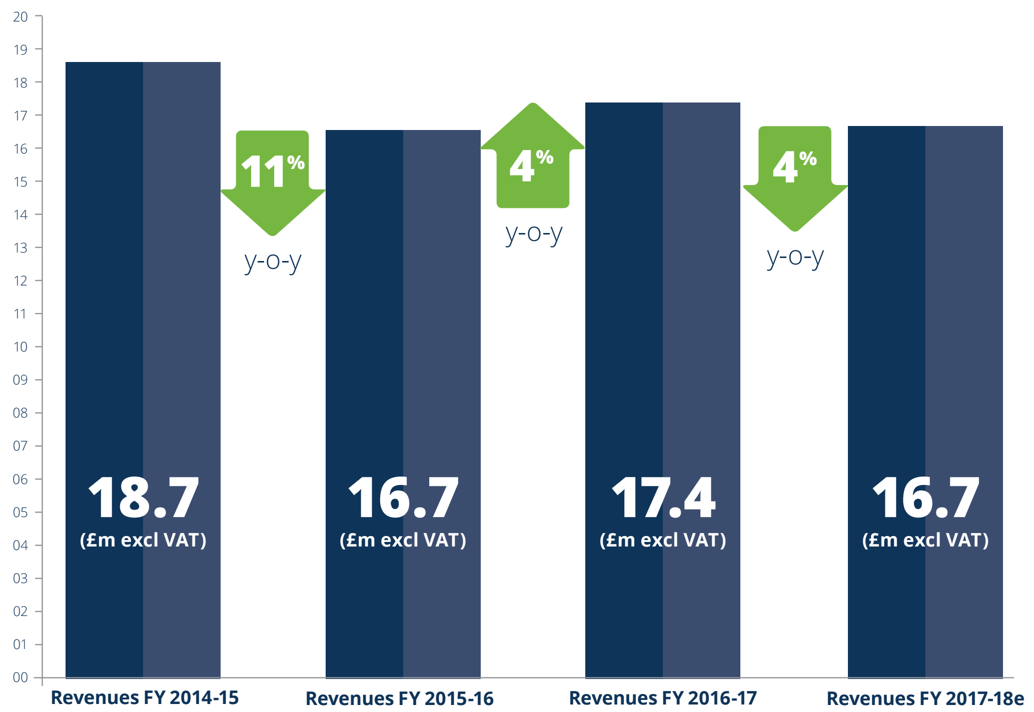
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/SERVICE ONCE YOU HAD PURCHASED IT?

63%	26%	8%	3%
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- Industry concerns that certain merchants formerly operating within the online competition space would migrate their model to the ringtone, ringback tone and wallpaper space have failed to materialise – similar concerns were expressed regarding the games sector.
- The changing landscape within the UK's phone-paid sector has opened the door for more content-based services, with a number of international merchants promoting traditional phone-paid services, such as ringtones and wallpapers in particular.
- The number of consumers using ringtone, ringback tone and wallpapers has increased by 72.8% according to the consumer research, however, revenues have dropped year-on-year by 10%, and projected to fall 16% in FY2017-18, which indicates any consumer resurgence in these services may be short-lived.

TAROT OR ASTROLOGY SERVICES



ARPU
£8.32
y-o-y
3%

Has your trust ever been compromised?

YES
54%

2,113,000 total users

I use these services more than I did 12 months ago
359,000

My usage has remained consistent
592,000

I use these services less than I did 12 months ago
676,000

I no longer use these services
486,000

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter)
14%

Net Promoter Score
-44

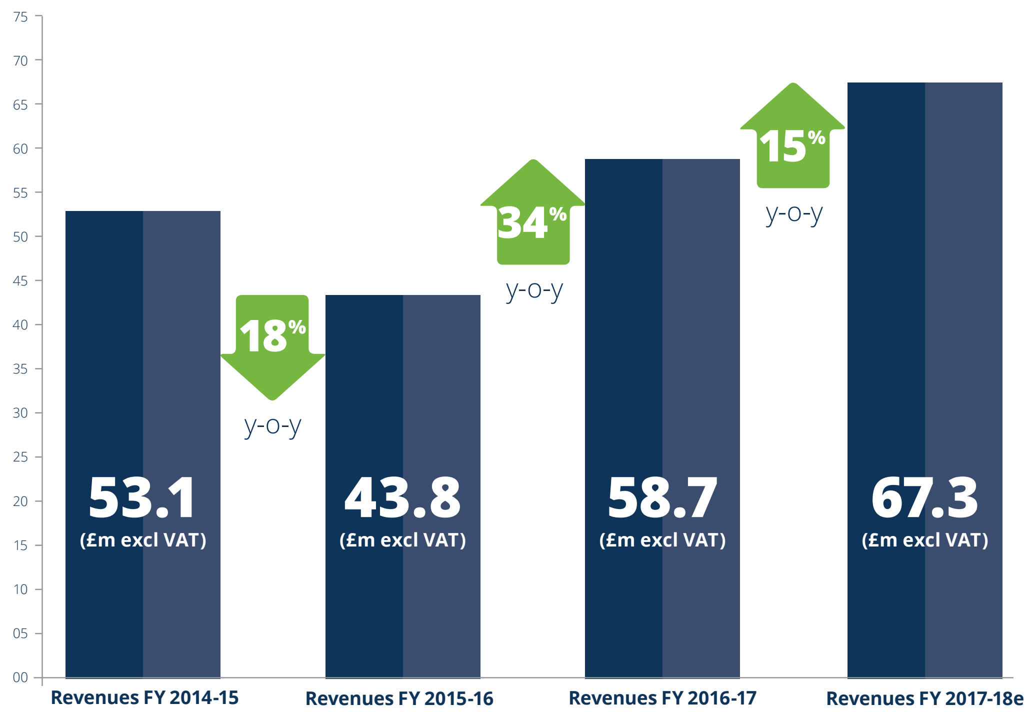
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

37%	30%	28%	5%
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- The sector experienced 4% year-on-year growth as revenues increased from £16.7 million to £17.4 million in FY2016-17.
- Tarot and astrology – and adult chat – call volumes outperforming typical voice-based services, and continues to be one of the biggest chat services in the UK.
- Newly-acquired users continue to use phone-paid services payment mechanisms despite best efforts of service providers to rapidly migrate them onto credit card payments.
- A number of merchants have dropped their price point from £2 to £0.8 per minute, enabling them to market using alternative channels, such as social media, and in doing so, broadening out their user base by appealing to a young (18-24 years) female demographic.

TV & RADIO COMPETITIONS OR QUIZZES



ARPU
£8.84
y-o-y
74%

Has your trust ever been compromised?

YES **30%**

7,635,000 total users

I use these services more than I did 12 months ago **1,222,000**

My usage has remained consistent **3,818,000**

I use these services less than I did 12 months ago **1,831,000**

I no longer use these services **764,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **12%**

Net Promoter Score **-37**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

69% It was exactly what I was expecting

20% It wasn't what I was expecting, but that was not a problem

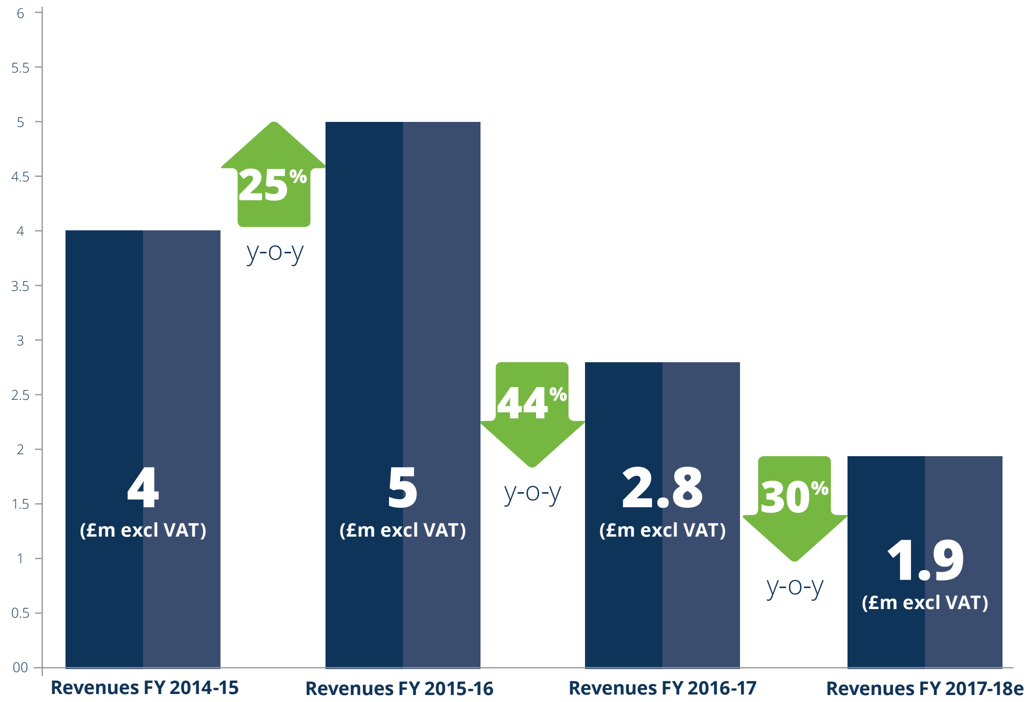
9% It was not what I was expecting, which was a problem

2% There was a problem

KEY FINDINGS

- Broadcaster competitions represented the fastest growing service within the phone-paid services market (excluding online competitions and quizzes) in FY2016-17, having experienced year-on-year growth of 34%.
- Industry research reveals this this growth has been driven by radio broadcasters capitalising on the decreased number of participants entering TV broadcaster competitions, as consumers seek instant gratification.
- Changes to TV competitions, most notably an increase in the cost to participate, coupled with increases in the cost to enter the National Lottery, are fuelling the rise in popularity of radio competitions.
- A £2 entry price point for a broadcaster competition – in line with the National Lottery price – is viewed by industry as the ceiling.

TV & RADIO SHOW VOTING OR INTERACTION



ARPU
£1.92
y-o-y
2%

Has your trust ever been compromised?

YES
27%

2,102,000 total users

I use these services more than I did 12 months ago **273,000**	My usage has remained consistent **1,009,000**
I use these services less than I did 12 months ago **526,000**	I no longer use these services **294,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **14%**

Net Promoter Score **-31**

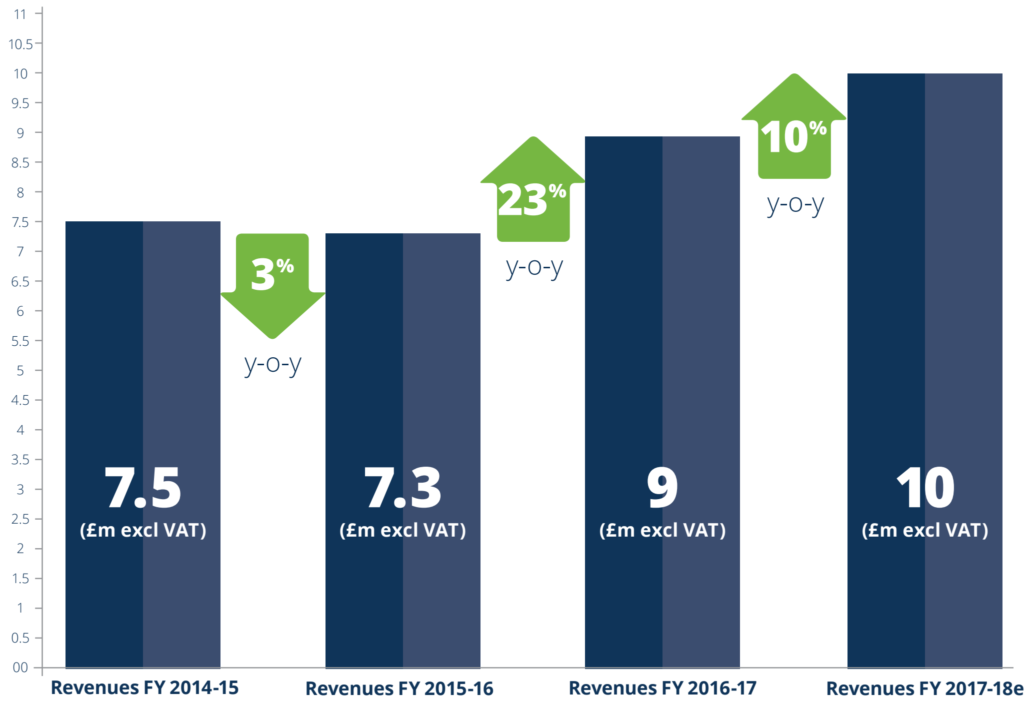
WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

74%	18%	7%	1%
It was exactly what I was expecting	It wasn't what I was expecting, but that was not a problem	It was not what I was expecting, which was a problem	There was a problem

KEY FINDINGS

- Revenues have dropped by 44% as free voting on apps continues to cannibalise paid-for voting via a short code.
- The drop in revenues from £5 million to £2.8 million in FY2016-17 looks set to continue in FY2017-18, although the drop will be significantly smaller as TV programmes with smaller audiences continue to drive voting or interaction.
- An increase in radio broadcaster activity has contributed to the revenues, as have mainstream broadcasters introducing voting to a number of new programmes.

VIRTUAL GIFTS & PAYMENTS



ARPU £19.48 y-o-y 56%

Has your trust ever been compromised?

YES 49%

460,000 total users

I use these services more than I did 12 months ago **101,000**

My usage has remained consistent **189,000**

I use these services less than I did 12 months ago **129,000**

I no longer use these services **41,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **15%**

Net Promoter Score **-32**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

49% It was exactly what I was expecting

31% It wasn't what I was expecting, but that was not a problem

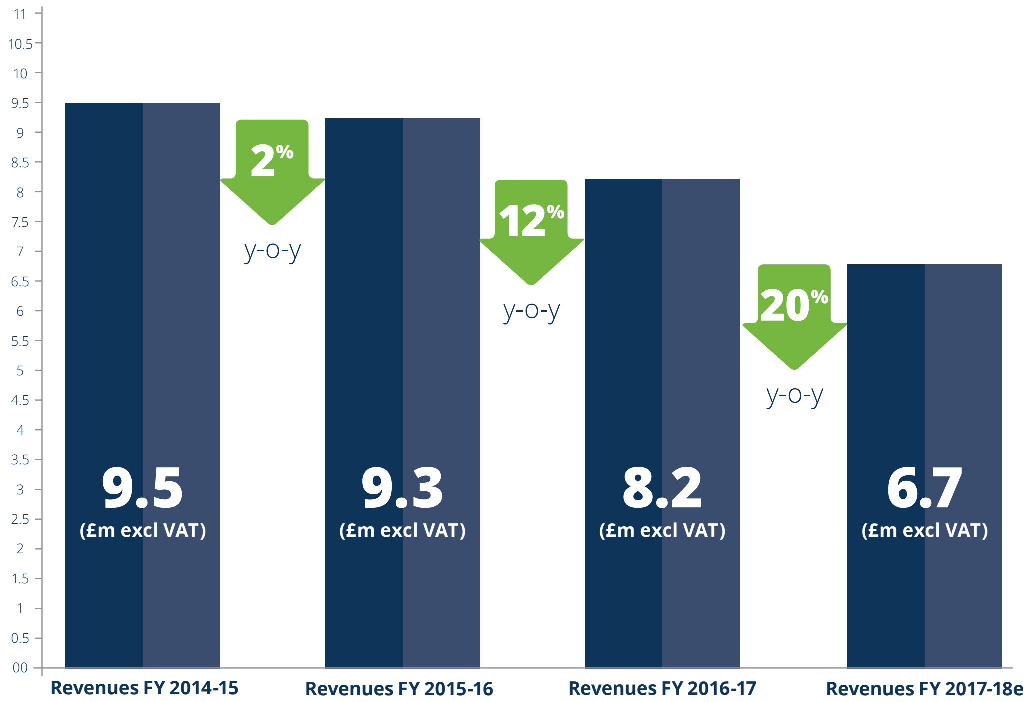
14% It was not what I was expecting, which was a problem

6% There was a problem

KEY FINDINGS

- This is one of the biggest growing sectors within phone-paid services (23% year-on-year), albeit from a small base.
- The growth can be attributed to a transitionary period caused by the inclusion of virtual payments to the category – and not a sudden demand for virtual gifts. In particular, growth is primarily down to the use of operator billing to purchase credit for gaming, as well as the continued purchase of supermarket shopping vouchers.
- As a result of the revision to its definition and the inclusion of virtual payments, revenues are up from £7.3 million in FY2015-16 to £9 million in FY2016-17.
- Growth expected to slow down in FY2017-18, with revenues of £10 million.

VOICE-BASED INFORMATION SERVICES



ARPU £6.71
y-o-y **35%**

Has your trust ever been compromised?

YES **43%**

1,252,000 total users

I use these services more than I did 12 months ago **163,000**

My usage has remained consistent **513,000**

I use these services less than I did 12 months ago **388,000**

I no longer use these services **188,000**

OVERALL SATISFACTION RATING

NPS 9-10 (Promoter) **12%**

Net Promoter Score **-39**

WHAT WAS YOUR EXPERIENCE OF THE CONTENT/ SERVICE ONCE YOU HAD PURCHASED IT?

64% It was exactly what I was expecting

19% It wasn't what I was expecting, but that was not a problem

13% It was not what I was expecting, which was a problem

5% There was a problem

KEY FINDINGS

- The unique appeal of sports-based information, namely football and horse racing tips and betting advice, continue to prop up voice-based information services. Travel and weather services, where the information is being sourced for free via the internet, are dwindling in use.
- Revenues fell 12% year-on-year between FY2015-16 and FY2016-17, primarily down to an increase in advertising spend in the first half of the financial year.
- However, the sector slowed from Q3 FY2016-17 as advertising promoting these services was withdrawn, attributed by industry as a knock-on effect caused by the cessation of advertising for online competitions and adult video services.

4 SECTION 4: ANALYSIS

Phone-paid service revenue analysis FY2016-17

All revenues exclusive of VAT unless stated otherwise.

In FY2016-17 we continued to see a significant split between the voice and mobile market. Mobile, made up of PSMS, voice shortcodes, operator billing, PayforIt, and charity donations experienced a year-on-year increase in revenues of 12.3%, despite a 5.8% drop in charity donations, while voice-based services fell 12.7% year-on-year, skewed downward by the 21.4% decline in directory enquiries.

Excluding directory enquiries, voice-based services dropped 8.4%, which is a gentler decline than predicted in the previous Annual Market Review and confirms an ongoing, albeit receding, consumer demand for these services. Directory enquiries aside, voice service revenues are holding up better-than-expected either from a price-per-minute increase, such as adult or dating and flirt services, or price per minute decreases, such as tarot or astrology, to appeal to a broader audience.

Certainly with adult, industry belief is that the separation of access and service charges following the introduction of Non-Geographic Call Services (NGCS) in July 2015 has had little impact on the service. Indeed, industry research uncovered a surprise that voice-based service providers had not capitalised on the introduction of NGCS and developed premium voice services, based around the £3.60 per minute price point. Clearly, companies continue to sweat their service assets as opposed to exploring potentially new voice-based revenue generating services.

Services that outperformed expectations in FY2016-17 are typically those that provide unique content, and cannot be provided for free via the internet, such as chat services (adult, tarot or astrology) and gambling or betting focused sports-based information services. Voice 087 services also defied expectations with a year-on-year revenue drop of 6.7%, as consumers continue to engage with brands and businesses using voice despite the alternative communication channels available in an omni-channel environment.

Phone-paid service revenue analysis FY2017-18e

In FY2017-18, the phone-paid service market is projected to fall 6.1% to £665.5 million. On average, mobile-based services (charity donations, PSMS, voice shortcodes, operator billing and PayforIt) are expected to experience year-on-year growth of 3%, compared to a decline in voice-based revenues of 17%.

The majority of voice revenues continue to erode, with directory enquiries, voice-based information services and low-cost international or reverse charge calling, all projected to experience falls in revenue of 20% or more. The exceptions are adult chat and tarot or astrology, which are both expected to remain relatively stable during the period.

Phone-paid services' anomalous FY2016-17 has also resulted in a lower-than-expected increase in mobile-based revenues. While charity donations and operator billing and PFI are expected to increase (8% and 27% respectively), mobile-based growth is expected to be limited to 3% because of the 27% year-on-year drop in PSMS (and voice shortcode) revenues, primarily down to the continued drop-off of online competitions and adult subscription services.

Adult services revenues are projected to fall 29% as a result of merchants withdrawing advertising from adult video services and therefore failing to acquire new subscribers. But it is the 72% drop in non-broadcaster competitions or quizzes that can largely be attributable for the overall decline in total phone-paid service revenues in FY2017-18.

1. CONSUMER TRENDS

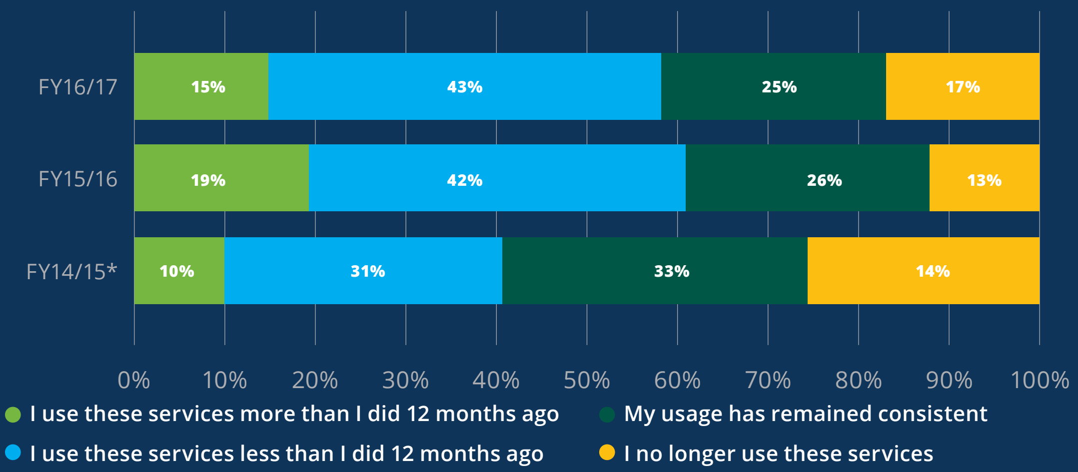
Consumer perception

Consumer perception of phone-paid services has deteriorated somewhat in FY2016-17, as highlighted by the combination of an increase in distrust, and an increase in the number of users experiencing problems.

Usage

FY2016-17 saw an increase in the number of consumers no longer using services. While the number of consistent users and those who use services less changed little from FY2015-16, the proportion of consumers increasing their usage fell from 19% to 15%.

How has your usage changed in the last 12 months?



**FY2014-15 also included an "I Don't know" option which accounted for 12% of responses. This option was removed from subsequent consumer surveys.*

Fig. 18

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q6: Do you use them more or less than you did 12 months ago? Single choice. Base n=3.000. Phone-paid Services Authority quantitative consumer survey, 2015 & 2016.

In FY2014-15, the number of users that claimed to have stopped using phone-paid services during the course of the year was 2.7 million (or 14% of total users). In FY2015-16, that had increased to just under 3 million users (or 13% of total users). In FY2016-17, that number has increased by almost 1 million to just under 4 million users, while the total number of phone-paid service users fell by 1%.

Based on an average taken between 2014 and 2017, the phone-paid service market loses 15% of its users each year, either through natural attrition or from a problem-related experience.

Trust

The industry continues to have an issue with trust, which according to 70% of respondents in FY2016-17, plays a major role in consumers' decision-making process. In fact, 32% of consumers said that their trust had been compromised when using a phone-paid service – a 3% increase on the previous year. When broken down further, 59% of users that had a negative experience stopped using the service. Therefore, trust and problem-related issues accounted for 2.2 million of the 4 million users that stop using phone-paid services. This supports the view that developing a greater sense of trust between the service and user would reduce the number of people stopping using phone-paid services.

Purchase experience

Consumer research also highlighted that 59% of phone-paid service users got exactly what they paid for. Although a further 25% received something unexpected which they still regarded positively. That left 16% of users that experienced an issue – a figure which correlates with the number of people stopping.

Perhaps a bigger problem that this section of consumer research has highlighted is that 41% of consumers did not receive what they were expecting, which could suggest advertising may have been in some way misleading to the consumer.

Satisfaction

Overall, satisfaction has improved among phone-paid service users, although it remains low. Using the Net Promoter Score[6] to gauge consumer satisfaction, the phone-paid services market scored an average of -31, which is an improvement on the previous year's score of -36.

As with the examples above, a breakdown of the NPS reveals a consistent trend relating to the number of people experiencing a positive or negative interaction with phone-paid services. For instance, 15% of phone-paid users would be considered "Promoters", 40% would be "Passive", and 31% "Neutral". That leaves 14% that would have a negative view of the service, and again correlates with the percentage of people that stopped using phone-paid services in FY2016-17.

Consumer research analysis highlights that up to two-thirds of phone-paid users have a positive experience of the service, one-third will have either a neutral or negative experience of which more than half of these users will stop using the service.
It is imperative that the phone-paid service sector improves trust, eradicates problems, and meets consumer expectations.

2. MARKET TRENDS

Special conditions and mobile network operator mandates

In the second half of FY2016-17, the MNOs enforced a new PFI mandate for online competition and adult video services, and regulator the Phone-paid Services Authority (PSA) introduced special conditions for these two service types.

Our industry research suggested that these changes resulted in far lower conversions. Members of industry suggested that PFI flows are up to 10 times less likely to convert than a PSMS equivalent. With a £12-£15 cost per acquisition[7], merchants were unable

[6] See Methodology for explanation of Net Promoter Score
[7] Industry research based on cost per acquisition by affiliate marketing

to generate a return on investment and stopped advertising in the second half of the financial year. Without the on-going subscriber acquisition activity, merchants operating in online competitions and quizzes, and adult video services, have become reliant on revenues generated from residual users.

As a precursory countermeasure to the regulatory and mandatory contractual changes coming into effect, online competitions merchants exponentially increased their advertising budgets in the first half of FY2016-17 to bolster their subscriber numbers. In the case of online competitions, industry research estimates almost 50 companies were operating during this time — significantly up on the previous year— to capitalise on the sector prior to the introduction of the regulatory and mandatory changes.

Typically, according to industry one-third of new subscribers will stop a subscription service almost immediately, another will third stop within one month, and thereafter the service will experience a monthly drop off of between 5% and 10% of subscribers.

The revenue projections for FY2017-18 for both online competitions and quizzes, and adult video services, are based on the above subscriber drop-off rates. Without new subscribers, the revenue decline is steep for online competitions, although projected revenues have been propped up by offline competitions' spend which is projected to fall by only 13% year-on-year in comparison.

In contrast, as merchants providing adult video services did not react in the same way as online competition merchants, the year-on-year decline is not as steep, although this too has been offset by stability in adult chat service revenues.

Under-reporting

There is a case to suggest that for both non-broadcaster competitions and quizzes, and adult services, revenues for these services have been slightly under-reported during previous rounds of industry research conducted as part of the Annual Market Review process. Based on complaints as a percentage of revenues, PSA registered a 40% increase in complaints while revenues increased by 73%.

The rise and fall of online competitions

The rise and fall of online competitions and quizzes in FY2016-17 has fundamentally changed the phone-paid services landscape – with the majority of the industry believing the change to be for the better.

Many service providers of online competitions and adult video services have since departed not only their respective sectors, but the UK phone-paid services market altogether. UK-based online competitions and adult video service providers have resorted to one or a mix of the following:

- exited the market altogether or looking to
- riding out the storm on residual revenues optimistic that the regulatory environment softens
- optimistic mobile network operators revise their PFI mandate
- reverted back to more traditional phone-paid content and services
- developing new content and services.

Industry research did indicate that a handful of online competition providers had restarted advertising having identified a successful consumer flow.

The majority of the phone-paid services industry included in the research (excluding online competition providers) believe the industry has been cleaned up once-and-for-all. Mobile network operators also reported that they had experienced a sharp decline in complaints to their call centres in excess of 30%, with the number of escalations dropping by up to 50%.

A cleaner landscape

Digital content companies from the UK and abroad have upped the promotion of traditional services such as music, videos, games, ringtones, ringback tones and wallpapers, as they capitalise on the massively reduced cost per acquisition offered by affiliate marketing companies looking to offset a shortfall in revenues caused by the demise of online competitions and adult video services.

Fitness, health and lifestyle apps continue to gain traction throughout the marketplace, and with it, a transformative effect on the subscription model, migrating from a weekly payment to monthly payment at a price point of between £7.99 and £9.99. Most notably, this subscription model and price points replicate the likes of Netflix and Spotify, which have become mainstream consumer services.

Industry research, however, reveals a split between those companies that believe the business model should remain as a weekly payment, and those that believe monthly payments will prevail. Industry expects a mix of the two moving forward for new and existing content and services.

Charity donations

Charity donations experienced a turbulent 12 months during FY2016-17. The introduction of the £20 price point for text donations has been well received by consumers during broadcaster telethon fundraising, and will likely be adopted by non-broadcast charities. The increased price point also helped donations using PSMS during telethons to increase 15% during the financial period.

However, for non-broadcast charity fundraising, donations using PSMS were down year-on-year. Firstly, this decline was caused by a reduction in marketing spend by charities in FY2016-17[8] reducing the amount of airtime they received on TV, and secondly, changes in regulation impacting how charities can use TV adverts to recruit donors.

The Fundraising Regulator has abolished the soft opt-in model preventing charities from using the mobile number provided via a one-off donation process to contact the individual for follow-up donations. Charities must now adopt the hard opt-in, which requires the consumer to provide their consent for the charities to contact them. Therefore, TV advertising can no longer be used as a vehicle to recruit one-off donations followed with a call to encourage repeat donations. Instead TV advertising has gone direct to driving regular donations on a monthly basis. Charities are promoting the £3 price point for regular monthly giving, with a view to increasing to £5 per month.

Such measures have been introduced in accordance with the UK's existing data protection legislation, but also in preparation for the introduction of the General Data Protection Regulations (GDPR) in April 2018.

Increasingly, by providing consumers with a variety of opt-in options at the point of recruitment, such as SMS and email, the number of users opting in doubles[9].

[8] Source: industry research
[9] According to industry research

Short-term, these developments have contributed to the reduction in total donations via SMS during FY2016-17. But growth in monthly donation subscriptions is experiencing strong growth — albeit from a small base — and will offset the decline in total donations in FY2016-17, with a projected year-on-year growth of 8% in FY2017-18.

What is General Data Protection Regulation?

Not only will PSD2 come into effect in January 2018, but the General Data Protection Regulation (GDPR) is a new legal framework in the EU that will become effective in the UK from 25 May 2018.

The Information Commissioner's Office (ICO) has already committed to assisting businesses and public bodies to prepare to meet the requirements of the GDPR ahead of its introduction.

Industry believes that companies marketing their phone-paid services using SMS will not be impacted by GDPR, although there was a mixed view regarding the impact on the charity sector. That said, the consumer research revealed that more than half a million phone-paid services users received SMS spam following a transaction.

3. LOOKING FORWARD

Is operating billing getting closer to mass market adoption?

Operator billing (& PayforIt) experienced a year-on-year revenue increase of 31% between FY2015-16 and FY2016-17, and continues to not only offset the on-going decline in voice revenues, but provide the platform upon which future phone-paid services and revenues will be derived. In FY2017-18, operator billing is projected to grow by 27%.

But the growth in FY2016-17 of 31% is down on the projected 51% made in last year's Annual Market Review. This can be attributed to the slower-than-expected adoption of operator billing of merchants and Blue Chip companies.

Operator billing phase I reaching ceiling

In FY2015-16, operator billing growth was being driven by games or apps charge to my bill, games on social networks, betting or gambling, and music and video content. At the time, the fifth service expected to also boost revenue growth for operator billing, internet-based information services, was yet to make a significant contribution. Regardless, the average increase in revenues between FY2014-15 and FY2015-16 for these five services was 29%.

Jump forward 12 months, and the average increase in revenues for the five services was 7%. For FY2017-18, the average revenue growth is forecast to be 12%, with the majority of growth coming from betting or gambling and the launch of social lotteries. Remove this category, and the average growth drops to 5%.

As a payment mechanism, operator billing has reached its ceiling of early adopter users for phase I. Phase I can be described as traditional phone-paid services that use operator billing, as outlined above. Phase II represents new industries and sectors adopting operator billing, such as ticketing in particular, which has the potential to drive consumer usage beyond the early adopters into the mass market.

The slowing down in revenues is perhaps the first indication that the transition from the more traditional phone-paid services payment mechanism to operator billing will not be seamless. Network returns data suggests the early adopters are actively using operator billing, but progressing to the next level of mass market usage is not going to be plain sailing despite what consumer research continues to claim.

Consumer demand is there

The true measure of consumer appeal for operator billing as a payment mechanism will come from outside the traditional realms of phone-paid services, when phase II comes into effect and it is applied to the likes of transport, ticketing and other purchases, such as bike hire and purchasing take-away food. Given that operator billing growth is already restricted potentially to a group of early adopters within a user base accustomed to paying for digital goods and services using their phone bill, the task of expanding that product portfolio is becoming all the more challenging, but certainly not impossible.

What we know from this year's consumer research of phone-paid service users, is that the appeal of consumers paying direct to their phone bill is increasing, from 28% to 37%. As a payment mechanism operator billing remains the most attractive for phone-paid users, ahead of PayPal (32%), and debit card (22%).

When the research explored consumers' propensity to use operator billing for particular payment types it revealed that 28% of existing phone-paid service users would use operator billing for transport payments, covering train, bus, taxis, car park, and toll road transactions. Payments for live entertainment ticket services (cinema, low-cost live events, or deposits for high price concerts, for example) hold slightly less appeal (25% of existing phone-paid users), while random payments (take-away food, bike hire, and stamp purchases) appealed to 22%.

How likely are you to use operator billing for the following?

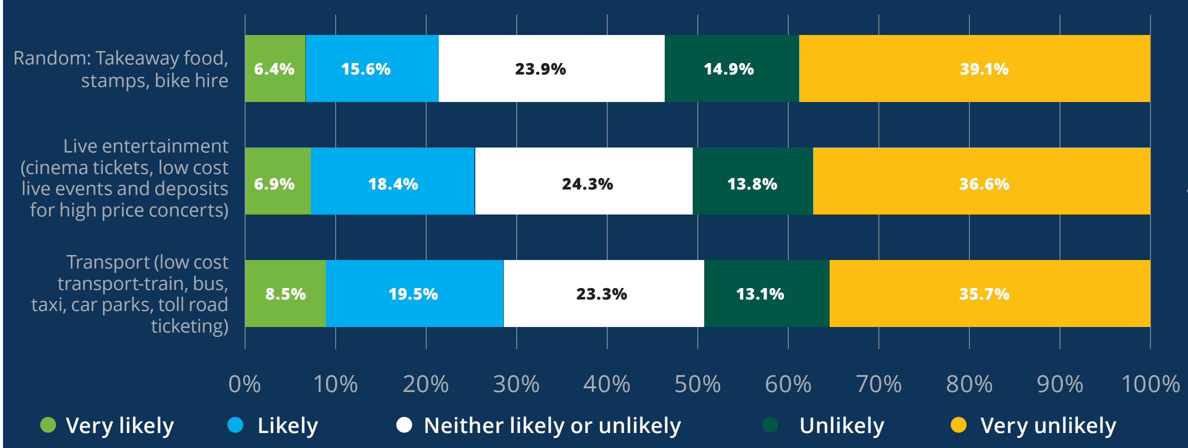


Fig. 19

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q19: How likely are you to use the following mTicketing services? Multiple choice. Base n=3,000.

On average, 25% of existing phone-paid service users would be likely to use operator billing, with a further 25% yet to be convinced. When applied to the total phone-paid user base that would account for 5.7 million users.

Nevertheless, to complete the transition from operator billing early adopters to mass market, industry has pegged its hopes on mobile ticketing (mTicketing). Of the users that are likely to use operator billing to purchase mTickets, it is the convenience of the payment mechanism that is most appealing (37%). This was followed by users liking the option of having multiple payment mechanisms available to them, which implies operator billing has a comfort element attached to it, to be used when all other payment mechanisms fail. Trust in their mobile operator (19%) to provide a secure service (19%) will also play a role in driving consumer adoption.

Why you are "very likely" or "likely" to use your mobile phone to pay for tickets?

I like the convenience of using my mobile phone to make payments	37%
I like to have multiple payment options	21%
I believe it will be a secure service	19%
I trust my mobile operator	19%
I don't know	4%

Fig. 20

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q20: Please explain why you are "very likely" or "likely" to use your mobile phone to pay for tickets? Multiple choice. Base n=1,099

Spend

The consumer research further reveals that almost half of users would favour using operator billing for mTicket transactions between £6 and £15. In total, more than two-thirds of users would spend up to £15, with the remaining one-third likely to spend up to £30.

How much do you think your average purchase using mTicketing would be?

£0-5	19%
£6-10	21%
£11-15	28%
£16-20	16%
£21-25	9%
£26-30	7%

Fig. 21

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q22: How much do you think your average purchase using mTicketing would be? Multiple choice. Base n=1,787

Just under one quarter of consumers claim that they would use operator billing on a weekly basis to purchase a ticket, with a similar number citing monthly usage. These figures could increase, as one-third of consumers do not know how they would use operator billing. Assuming all of the don't knows were operator billing frequent-user converts, then 79% of consumers would be using the payment mechanism to purchase an mTicket at least once per month. Regardless, the pent-up demand for a phase II service is already there. It's now just incumbent on industry to deliver.

How often do you expect to use operator billing when it is commercially available?

Daily	9%
Weekly	13%
Monthly	23%
Quarterly	7%
Annually	14%
I don't know	34%

Fig. 22

Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, January 2017. Q21: How often do you expect to use mTicketing when it is commercially available? Multiple choice. Base n=1,787

Groundhog Day

Industry optimism expressed during last year's Annual Market Review has dampened 12 months on, as they have been unable to convert the number of Blue Chip companies onto operator billing as expected. The inability to progress operator billing from phase I to phase II has caused a degree of frustration and consternation among sections of industry.

For instance, another 12 months have passed and the "golden mTicket" continues to be on the horizon, although the distance to the horizon is shortening.

Similarly, the advent of Apple launching operator billing in the UK did not materialise, although industry research suggests a launch towards the end of 2017 may happen. There is a suggestion from industry that companies are withholding going all-out promoting operator billing until the industry has the support – and advertising muscle – of Apple behind it.

In the meantime, green shoots of emerging activity have been identified. Short-break travel insurance is one sector embracing operator billing targeting consumers that have forgotten to cover their trip.

While the research identified a growing number of companies working tirelessly to expand the operator billing phase II opportunity, a number of reasons were floated by industry to explain why evolving beyond phase 1 continues to be problematic:

- A lack of understanding regarding the impact of the Payment Services Directive 2 (PSD2)
- Mobile network operators not supporting L1s when meeting with Blue Chip organisations, and vice versa
- Mobile network operators looking to disintermediate L1s from the operator billing value chain
- The monthly changes to principles-based PFI code implemented by mobile network operators acting as a deterrent to merchants and Blue Chips alike
- A lack of consistency of approach among the mobile network operators
- Some Mobile network operators view operator billing as an extension of PFI
- UK market fixated on looking backwards, not forwards
- Operator billing procurement period between 12-18 months; merchant can implement PayPal in minutes
- Operator billing not a priority for Blue Chip organisations.

Significantly, the industry research identified a disconnect between mobile network operators and L1s with regard to driving the adoption of operator billing among companies beyond phase I. Conversely, it also reaffirmed both parties are invested in capitalising on the opportunity and intent on developing commercial models to ensure phase II of operator billing flourishes. Therefore, clearly, for operator billing to take off this disconnect needs to addressed.

Methodology

Mobilesquared were commissioned by Phone-paid Services Authority to conduct the 2016-17 phone-paid services Annual Market Review. The Annual Market Review aims to:

- accurately size the market for the phone-paid services market and the sectors within it
- assess how consumers' engage with phone-paid services
- assess year-on-year trends to date in the market, with an appraisal of the FY2017-18 outlook for the various sectors.

To maintain consistency, Mobilesquared has applied the same research process used to complete previous Annual Market Reviews, based on quantitative and qualitative research models that fed a market modelling exercise.

Methodology at a glance

Target	Research	Sample	Process	Date
Phone-paid Services Authority/AIME	N/A	N/A	Create database	Dec 2016 - Jan 2017
Consumer	Quan	3,000	Online survey	Jan 2017
Industry	Qual	55	1-2-1 interviews	Feb-May 2017
Industry	N/A	12	Sense check	Jun 2017

Consumer: Quantitative research

The quantitative research was based on an online survey to a nationally-representative sample in the UK aged 11+ years old. Parental permission was sought for participants aged 16 and under. Questions in relation to Adult, Dating and Gambling did not go out to the under 18s. In total, 6,988 panellists started the survey, with 3,988 screened out for claiming to have not used at least one phone-paid service over the previous 12 months, leaving 3,000 phone-paid service panellists to complete the survey and share their phone-paid service habits, expenditure, emerging trends, and future requirements.

The consumer survey went live on the morning of 18/01/2017 and closed on the evening of 31/01/2017.

	Quantitative research demographic breakdown							
	11-15	16-17	18-24	25-34	35-44	45-54	55-64	65+
Female	88	36	182	338	219	223	171	267
Male	92	23	41	172	258	284	238	368
Total	180	59	223	510	477	507	409	635

Industry: Qualitative research

Qualitative industry research was based on in-depth interviews of businesses operating within the phone-paid services space, and regulated by the Phone-paid Services Authority. Where applicable, the research also included companies operating outside of the phone-paid services space to provide a more holistic overview of the telecommunication and content sectors, and phone-paid services' role within that.

Mobilesquared conducted 55 in-depth interviews to provide a complete overview of every sector within the phone-paid services market in the UK, covering the past, present and future. The interviews were based on a survey created with direct input from the Phone-paid Services Authority, AIME, and senior industry figureheads.

As with the consumer survey, every effort was made to maintain the themes and questions included in previous rounds of the industry research survey to ensure continuity as specified by Phone-paid Services Authority, although changes in market trends and market developments were taken into account.

The interviews were used as background to provide market commentary throughout this report, and to provide data and input into the FY2016-17 market modelling process and FY2017-18 forecasting.

The research took place between March 2017 and May 2017.

Market modelling

The market-modelling exercise took summary data (revenue, excluding VAT) from the network returns submitted to the Phone-paid Services Authority and combined this with survey data about stated use of different services by consumers. The subsequent model produced estimates of revenue for the 18 different categories of service as identified in the updated phone-paid services Authority taxonomy (see below). These figures were later sense-checked with members of the industry that had participated in the qualitative research, and adjustments were made to account for over- or under-reported use of services.

Data from the nationally-representative consumer survey when applied to latest UK population data[10] of residents aged 11 and over, was used to extrapolate a total phone-paid services user base for the UK, applicable to the start of April 2017. This resulted in a phone-paid services user base of 22.7 million people.

The total phone-paid services user base was then broken down by service by calculating the weightings for over- and under-stated use that have been applied to the rest of the model. All references to phone-paid services users or usage will be based on the consumer research findings, unless stated otherwise.

The revenue data does not contain estimates of the value of charitable donations by phone-paid services, so figures for charitable donations were introduced to the model on the basis of a robust figure derived from figures supplied by industry players working in that sector, and data from the consumer survey. Overall, market revenues and forecasts have been sense-checked by members of the phone-paid services industry.

[10] Source: 63.6 million. Office for National Statistics, National Records of Scotland, Northern Ireland Statistics and Research Agency, 2013

Forecasting

Sector-by-sector forecasting of FY2017-18 revenues has been undertaken for this report. The methodology employed in the forecasting was similar to that used for the FY2016-17 model. Forecast annual revenues for each payment platform were derived by taking the annual totals from FY2014-2017 and extrapolating to FY2017-18 using least-squares regression. This data was then modelled within the same method as above, and sense-checking was applied according to industry forecasts for their sectors.

Updated service taxonomy

To address the changing services in the market, the service taxonomy for the phone-paid services industry has been updated and is based on the following:

FY2014-onward categories	No Change
Directory enquiries (eg numbers starting 118)	No Change
Voice-based information services (eg weather hotline, text alerts, etc.)	No Change
Low cost international or reverse charge calling	No Change
Internet-based information services (books, magazines, newspapers)	No Change
Non-broadcaster competitions or quizzes (online)	No Change
TV & radio competitions or quizzes	No Change
TV & radio show voting, interaction (e.g. X Factor voting)	No Change
Adult content (eg video clips, chat, images, off-handset purchases for adult-related content e.g. DVD unlock)	No Change
	No Change
Dating or flirt chat service	No Change
Betting or gambling (eg betting, lottery, scratch cards)	No Change
Games or apps charged to my bill (not on social networking sites)	No Change
Games on social networks -	No Change
Virtual gifts and payments	Definition expanded from virtual gifts in the social media space such as SwapIts, to now include virtual payments, such as supermarket vouchers and online gaming credit top-ups
Music or video content	No Change
Tarot or astrology	No Change
Ringtones, ringback tones, wallpapers etc	No Change
Charity donations	No Change
Customer service (eg advice, sales or support)	No Change

About mobilesquared

mobilesquared provides intelligence and insight on the mobile sector. We've been analysing the mobile space for two decades, so our expertise has been earned, not learned. Our instinctive ability to ask the right questions uncovers invaluable nuggets of insight, which we interpret to help shape truly effective strategy for our clients. Our experience is recognised by the industry - we sit on judging panels for the prestigious GSMA Awards, EMMA awards, and the MEFFYs.

For more information go to www.mobilesquared.co.uk

PSA
Phone-paid Services Authority

About Phone-paid Services Authority

The PSA is the UK regulator for content, goods and services charged to a phone bill.